

Airlines

Initiation Report
January 25, 2018

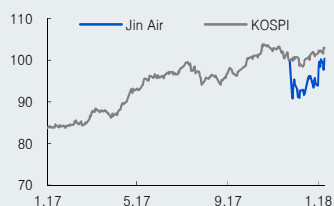
(Initiate)	Buy
Target Price (12M, W)	38,000
Share Price (01/24/18, W)	28,950
Expected Return	31%

OP (17F, Wbn)	96
Consensus OP (17F, Wbn)	92

EPS Growth (17F, %)	65.3
Market EPS Growth (17F, %)	45.8
P/E (17F, x)	11.0
Market P/E (17F, x)	10.3
KOSPI	2,538.00

Market Cap (Wbn)	869
Shares Outstanding (mn)	30
Free Float (%)	38.0
Foreign Ownership (%)	8.7
Beta (12M)	1.41
52-Week Low	26,200
52-Week High	28,950

(%)	1M	6M	12M
Absolute	8.2	0.0	0.0
Relative	4.1	0.0	0.0



Mirae Asset Daewoo Co., Ltd.

[Transport/Energy]

Jay JH Ryu
+822-3774-1738
jay.ryu@miraeasset.com

Jin Air

(272450 KS)

Three competitive factors

Initiate coverage with Buy call and TP of W38,000

We initiate our coverage on Jin Air with a Buy call and target price of W38,000. Our target price is based on RIM methodology (COE of 8%) and corresponds to a 2018F P/E of 12.8x and P/B of 3.7x. We expect Jin Air's revenue to reach W1.02tr in 2018, and in the longer run see revenue expanding 12.1% CAGR through 2020. We also expect Jin Air to maintain a healthy OP margin of more than 11% in 2018 and beyond, and see net profit growing at 21.2% CAGR.

For 4Q17, we forecast operating profit of W18.2bn for Jin Air, well above the consensus (W13.3bn). Despite worries over low load factor (L/F) for large aircraft, we expect robust demand to drive up prices and bolster profitability. We estimate debt-to-equity ratio improved to 111% at end-4Q17, from 223% at end-3Q17, following a successful rights offering.

Three competitive factors

Despite being a second-tier low-cost carrier (LCC), in terms of size and profitability, we think Jin Air has the potential to join the first tier, thanks to three distinguishing factors:

1) Large aircraft: Jin Air's fleet of large aircraft allows the airline to lower cost per available seat kilometer (CASK), service long-haul routes, and expand service capacity at airports with limited slots. Having large aircraft increases operating leverage, adding to earnings volatility, but also presents opportunities to maximize profitability, when combined with flexible operation.

2) Potential synergy with Korean Air: Jin Air's ties with Korean Air, the largest domestic airline, enable it to increase its L/F on major routes through code-sharing and multi-modal transport. Demand for code-sharing and multi-modal transport accounts for 3% of total RPK, but has a significant impact on L/F. In addition, Korean Air's market-leading infrastructure should help Jin Air to optimize maintenance and other expenses.

3) Ancillary revenue: The revenue contribution of ancillary services is still below 5%, but is rising steadily. Jin Air has strong potential to expand its ancillary revenue mainly through online services (e.g., excess baggage allowance and advance seat selection).

Turning challenges into chances: Recommend Buy

Shares of Jin Air are trading below the initial offering price, due to worries over: 1) cost pressures from rising oil prices; and 2) lackluster L/F for large aircraft. However, we believe such worries should present buying opportunities from a long-term perspective.

We expect fuel surcharges and won appreciation to offset the negative impact of higher oil prices. When a boom time arrives, Jin Air is likely to enhance its profitability, aided by improvements in L/F and pricing. We believe the benefits of large aircraft should outweigh the negatives (e.g., persistent earnings volatility), as they should allow Jin Air to increase operating efficiency by developing long-haul niche markets. Shares of Jin Air offer a good entry point, trading below a P/E of 10x.

FY (12)	12/14	12/15	12/16	12/17F	12/18F	12/19F
Revenue (Wbn)	351	461	720	882	1,024	1,128
OP (Wbn)	17	30	52	96	114	131
OP margin (%)	4.8	6.5	7.2	10.9	11.1	11.6
NP (Wbn)	13	23	39	66	89	103
EPS (W)	484	841	1,457	2,408	2,962	3,419
ROE (%)	54.8	55.8	60.9	43.2	33.3	28.8
P/E (x)	-	-	-	11.0	9.8	8.5
P/B (x)	-	-	-	3.5	2.8	2.2
Dividend yield (%)	-	-	-	0.8	0.9	1.0

Note: All figures are based on non-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.

C O N T E N T S

Investment summary	3
Initiate coverage with Buy and TP of W38,000	3
Industry consolidation led by leading players is ongoing	3
Turning challenges into opportunities: Fleet of large aircraft to be highlighted	3
II. Valuation	4
Initiate coverage with Buy call and TP of W38,000	4
III. Airline market outlook	6
1. Ample upside to market growth	6
2. LCCs' market share gains	7
3. Competition in LCC market	8
IV. Three competitive factors	10
1. Advantages of large aircraft	10
2. Piggy-back effect	13
3. Ancillary revenue: Ample upside potential	15
V. Earnings outlook	17
1. Net profit to display three-year CAGR of 21.2%	17
2. 4Q17 preview: OP of W18.2bn, beating unfavorable market conditions	18
VI. Risks	20
1. Oil price uptrend	20
2. Demand for China routes to recover	22
3. Key revision to K-IFRS effective from 2019	23
VII. APPENDIX	24

Investment summary

Initiate coverage with Buy and TP of W38,000

We initiate our coverage on Jin Air with a Buy call and target price of W38,000. Our target price is based on RIM methodology (COE of 8%) and corresponds to a 2018F P/E of 12.8x and P/B of 3.7x. We believe the valuation is justified, in light of the firm's 2017-20 average EPS growth (17.4%) and ROE (29.2%). Shares of Jin Air are undervalued, trading at a P/E of 9.8x (versus the average multiple of LCCs in Asia of 10.9x).

With its fleet of large aircraft, Jin Air is well positioned to service long-haul routes, and reduce costs. Its ties with Korean Air, the largest domestic airline, should also enable it to increase its L/F on major routes and reduce costs. The airline also sees ample room for expansion in its ancillary revenue.

By end-2020, we expect Jin Air to expand its revenue to W1.24tr, operating profit to W149.4bn, and net profit to W116.9bn, supported by its aggressive fleet expansion, expansion of long-haul routes, and lower cost per available seat kilometer (CASK). For 4Q17, we forecast Jin Air to deliver sales of W225.3bn and operating profit of W18.2bn, both well above the consensus. Despite concerns over low load factor (L/F) in long-haul routes (e.g., Hawaii), robust demand likely drove up prices and bolstered profitability.

Industry consolidation led by leading players is ongoing

Korea's outbound passenger traffic has been expanding at a CAGR of 10-20%, spurred by an increase in leisure time and a decline in average pricing, amid market share gains by low-cost carriers (LCCs). Despite sluggish demand from China, Korea's inbound travel market sees room for further growth, thanks to the prospects for improvement in relations with China and further liberalization of overseas travel for Chinese citizens.

Meanwhile, there exist concerns about intensifying competition among LCCs. Although the Korean government recently rejected license applications from some budget carriers, there is a possibility of new players entering the market. However, among the existing domestic LCCs currently in operation, we see a clear performance gap between the top-three and bottom-three players. Although the recent market upswing has driven earnings improvement for all players, the leading players have also been outperforming, in terms of the pace of earnings improvement.

Moreover, in light of the scheduled change in IFRS accounting standards in 2019, we think 2019 will see a widening performance gap (in financial health and funding power) between airlines that successfully implement rights offerings or IPOs in 2018 and those that do not. This will also lead to a gap in fleet expansion capabilities.

Turning challenges into opportunities: Fleet of large aircraft to be highlighted

Shares of Jin Air are trading below the initial offering price, due to worries over: 1) cost pressures from rising oil prices; and 2) lackluster L/F for large aircraft. We estimate that a US\$1 rise in the international oil price would drive up the airline's annual operating expenses by W3bn. However, the imposition of fuel surcharges and won appreciation will likely offset the negative impact of higher oil prices. In the longer term, improvement in pricing aided by higher L/F should drive a pickup in profitability.

Jin Air's fleet of large jets could lead to an increase in its earnings volatility. However, in light of its efficient operation of its Hawaii route and high L/F on its new Johor Bahru route, the benefits of large aircraft should further outweigh potential negatives over time.

II. Valuation

Initiate coverage with Buy call and TP of W38,000

We initiate our coverage on Jin Air with a Buy call and target price of W38,000. Our target price is based on RIM methodology (COE of 8%) and corresponds to a 2018F P/E of 12.8x and P/B of 3.7x. We believe the valuation is justified, in light of Jin Air's three-year average EPS growth (17.4%) and ROE (29.2%).

Our positive outlook on Jin Air is based on: 1) the strong growth potential of the Northeast Asian market; 2) LCCs' continued market share gains; and 3) the company's aggressive fleet expansion. We estimate the outbound tourism market—a key market for LCCs—will expand by a 10-15% CAGR over the next five years.

We anticipate an increase in LCCs' combined market share to over 50% in the international segment and over 60% in the domestic segment. In the US and Europe, LCCs have seen their combined market shares surpass 30%. Given economic growth in Northeast Asia and the possibility of China opening up its air transportation market to foreign competition, we believe Korean LCCs' market share can exceed the levels seen in the US and Europe.

Shares of Jin Air are undervalued, trading at a P/E of 9.8x (versus the average multiple of LCCs in Asia, 10.9x). Given its relatively high ROE and the strong growth potential of the Northeast Asian market, the stock looks attractive. We believe the stock merits a valuation premium, considering both the rising barriers for new entrants and the widening gap between top- and bottom-tier players, which should limit the risk of profitability erosion over the long term.

Table 1. Valuation: RIM

(Wbn)

	2017F	2018F	2019F	2020F	2021F	2022F	2023F
Revenue	882	1,024	1,128	1,242	1,403	1,572	1,761
(Growth)	22.5%	16.1%	10.2%	10.1%	13.0%	12.0%	12.0%
Net profit	66	89	103	117	134	147	159
(% of revenue)	7.4%	8.7%	9.1%	9.4%	9.5%	9.3%	9.0%
Equity	225	308	403	511	634	781	940
(Growth)	189.3%	36.8%	30.8%	26.7%	24.1%	23.1%	20.4%
ROE forecast	43.2%	33.3%	28.8%	25.6%	23.3%	20.7%	18.5%
Cost of equity	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
ROE spread	35.2%	25.3%	20.8%	17.6%	15.3%	12.7%	10.5%
Residual income	79	78	84	90	97	100	99
Terminal value	853						
NPV of FCFE	583	Beta		1.0			
PV of terminal value	395	Risk Premium		6.0%			
Current book value	78	Risk Free Rate		2.0%			
Equity value	1,146	COE		8.0%			
Shares outstanding	30,000	Target PBR (FY18)		3.7			
Target price (W)	38,000	Target PER (FY18)		12.8			
Current price (W)	28,950	Target PEG		0.6			

Source: Mirae Asset Daewoo Research

Table 2. Global airlines' peer valuation

Company	Market cap. (Wbn)	OP margin (%)			PER			PBR			ROE (%)			EV/EBITDA		
		16	17F	18F	16	17F	18F	16	17F	18F	16	17F	18F	16	17F	18F
Jeju Air	921	7.8	10.3	9.9	17.2	11.4	9.5	3.4	2.8	2.2	21.0	25.9	24.8	4.6	5.0	4.2
AirAsia	3,600	23.8	21.0	18.7	7.4	8.7	9.4	1.6	1.6	1.4	23.4	21.6	16.3	6.3	6.9	6.8
AirAsia X	433	5.7	4.4	3.8	32.1	16.0	10.4	1.6	1.3	1.1	5.5	9.1	11.8	5.7	7.6	6.4
Spring Airlines	4665	7.4	4.0	6.2	28.9	23.4	18.7	3.3	3.3	2.9	12.2	14.0	15.2	-	19.8	15.3
Cebu Airlines	1265	19.9	16.2	15.2	8.6	6.6	6.5	1.7	1.5	1.2	21.0	24.0	19.6	6.1	5.4	4.9
Asian LCC average		12.9	11.2	10.8	18.8	13.2	10.9	2.3	2.1	1.8	16.6	18.9	17.5	5.7	8.9	7.5
Korean Air	3,448	9.6	8.0	8.0	-	4.9	8.6	1.2	1.2	1.1	-8.8	28.9	13.4	6.5	6.4	6.3
Asiana Airlines	1047	4.5	4.0	4.0	-	9.7	15.1	1.1	1.0	1.0	-8.0	11.0	6.4	1.8	8.7	8.2
Air China	25,816	16.1	11.7	11.4	16.6	13.6	12.8	1.5	1.4	1.3	9.2	11.3	10.6	7.7	7.1	6.6
Japan Airlines	14,694	13.2	12.2	12.2	9.0	12.4	11.8	1.5	1.4	1.3	17.9	12.6	12.2	3.8	4.5	4.3
China Eastern Airlines	17,408	12.6	8.2	7.6	14.0	12.4	13.3	1.5	1.4	1.3	11.1	11.9	9.9	8.5	7.2	6.6
China Southern Airlines	16,411	11.0	8.2	8.2	15.6	13.3	12.0	1.6	1.5	1.4	10.9	12.4	11.3	8.4	6.7	6.4
ANA Holdings	15,942	8.2	8.9	9.1	10.3	11.4	13.1	1.6	1.6	1.4	17.4	14.4	11.7	5.9	6.4	6.0
Singapore Airlines	10,545	4.4	4.8	4.2	28.0	22.6	24.6	1.0	1.0	1.0	3.5	4.5	3.9	4.6	5.3	5.0
Cathay Pacific Airways	6,876	-0.3	-1.4	1.9	-	-	76.1	0.9	1.0	0.9	-5.7	-2.6	1.4	16.1	12.3	8.8
EVA Airways	2,408	4.9	4.2	5.0	15.7	13.4	12.8	1.1	1.2	1.1	7.4	9.6	5.6	5.6	5.9	5.9
China Airlines	2,465	3.2	5.1	5.9	-	34.6	10.1	1.2	1.2	1.1	-0.5	4.5	8.9	6.1	8.0	7.5
Thai Airways	1266	2.0	3.9	3.6	-	41.9	13.2	1.3	1.2	1.1	-16.9	-0.8	7.3	11.1	7.5	7.1
Garuda Indonesia Persero	656	2.6	0.3	1.8	-	-	11.8	0.8	0.8	0.8	-19.9	-6.3	-1.1	21.1	9.9	7.0
Shenzhen Airport	3009	22.6	27.7	30.9	27.5	25.1	20.9	1.6	1.6	1.5	6.1	6.5	7.3	-	11.7	10.2
Hainan Airlines	9131	15.9	5.9	5.9	21.9	14.3	13.0	1.0	1.0	1.0	4.8	6.3	7.1	-	-	-
Asian FSC average		8.7	7.4	8.0	17.6	17.7	17.9	1.3	1.2	1.2	1.9	8.3	7.7	8.2	7.7	6.9
Southwest Airlines	41,275	18.4	16.4	17.6	18.5	18.5	13.0	4.4	4.4	3.5	25.2	25.7	28.8	6.9	8.2	7.3
Ryanair Holdings	25,919	23.1	23.5	22.8	14.3	14.0	13.3	4.2	4.0	3.2	30.0	29.6	26.1	9.1	9.3	8.9
JetBlue Airways	7,739	19.8	14.3	11.9	11.6	12.7	11.3	1.8	1.8	1.5	16.2	14.0	13.7	4.2	5.3	5.3
SkyWest	3,005	-5.5	11.9	13.4	17.1	16.3	13.1	1.9	2.0	1.6	-8.5	12.1	13.6	23.6	7.2	6.6
easyJet	9,328	8.0	8.4	9.5	20.6	17.0	13.5	2.2	2.1	1.9	11.1	11.9	15.3	7.5	8.6	7.1
WestJet Airlines	2,496	10.7	9.6	9.5	10.4	10.4	9.5	1.3	1.3	1.3	13.6	12.8	12.9	4.4	4.1	3.7
Allegiant Travel	2,893	27.2	16.6	15.9	17.2	19.7	15.6	5.7	5.3	4.0	33.5	28.1	30.3	6.9	8.7	7.9
Spirit Airlines	3,352	19.1	14.9	11.6	13.4	13.8	12.6	2.0	2.0	1.7	15.0	16.9	13.6	5.2	6.5	6.1
Other LCC average		15.1	14.5	14.0	15.4	15.3	12.7	2.9	2.9	2.3	17.0	18.9	19.3	8.5	7.2	6.6
Delta Air Lines	45,751	14.8	13.5	14.1	12.2	9.4	8.5	3.1	2.5	2.0	27.3	27.7	25.4	5.5	5.9	5.5
United Airlines	24,886	11.9	9.6	7.9	10.7	11.5	11.0	2.5	2.6	2.2	22.4	22.7	21.4	4.7	5.7	6.0
Deutsche Lufthansa	18,269	7.0	8.0	7.0	7.8	6.6	7.0	1.7	1.4	1.2	26.9	26.3	19.0	2.3	3.0	3.0
Alaska Air Group	9,063	22.7	17.2	13.1	9.8	10.4	10.4	2.4	2.4	2.0	24.4	25.4	21.6	6.1	5.4	6.0
Air France-KLM	7,350	4.5	5.8	6.0	4.8	5.5	6.1	1.3	1.7	1.4	-	39.4	29.3	2.4	2.9	2.7
Aeroflot	2,909	12.8	10.1	10.2	3.9	5.6	5.0	3.5	2.5	1.9	-	45.2	34.5	3.4	3.2	2.9
Other FSC average		12.3	10.7	9.7	8.2	8.2	8.0	2.4	2.2	1.8	25.3	31.1	25.2	4.1	4.4	4.4
Total LCC average		14.3	13.2	12.8	16.7	14.5	12.0	2.7	2.6	2.1	16.9	18.9	18.6	7.5	7.9	7.0
Total FSC average		9.7	8.4	8.5	13.9	14.7	15.1	1.6	1.5	1.3	6.8	14.8	12.7	6.9	6.7	6.1
Total average		11.5	10.2	10.1	15.2	14.6	13.9	2.0	1.9	1.6	10.9	16.4	15.0	7.2	7.2	6.4

Source: Bloomberg, Mirae Asset Daewoo Research

III. Airline market outlook

1. Ample upside to market growth

Korea's outbound travel market has recently been expanding at a CAGR of 10-20%. The number of outbound tourists used to be sensitive to changes in economic conditions. However, this is no longer the case, as people are now travelling overseas regardless of economic conditions.

The most important driver for this change was the launch of LCCs in 2006. The growing market share of LCCs in Korea has led to a decline in the cost burden for passengers. Another driver was increased leisure time. Koreans now enjoy longer holidays, thanks to the introduction of a five-day workweek system in 2011 and substitute holidays.

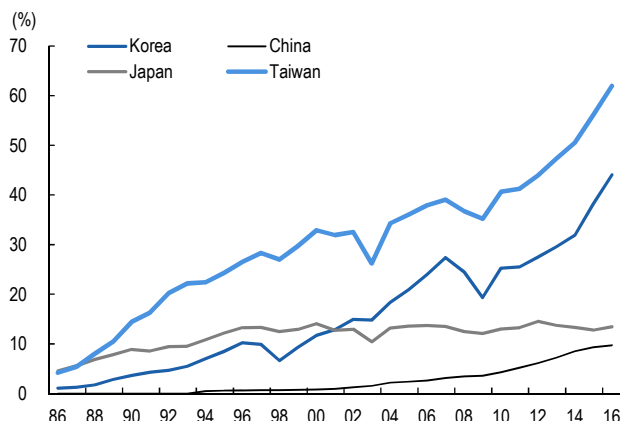
For Korea, the number of outbound tourists as a share of total population stands at 44%, which is similar to the figure for Taiwan. Taiwan bears similarity to Korea, in terms of land size, availability of tourist attractions, and land routes (limited for both). All things considered, Korea - like Taiwan before it - is set to see an increase in the number of airline passengers going forward.

Figure 1. Growth in outbound travelers vs. per-capita income growth (YoY)



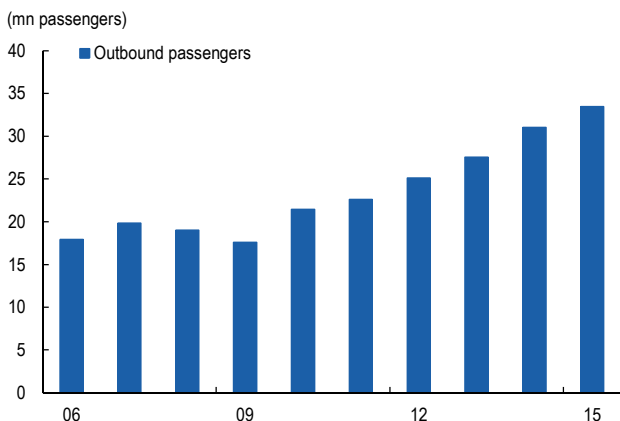
Source: Korea Tourism Organization, Mirae Asset Daewoo Research

Figure 2. No. of Korea's outbound tourists as % of total population



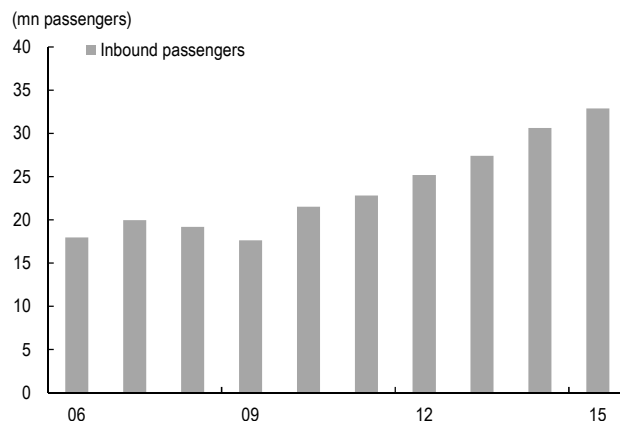
Source: Mirae Asset Daewoo Research

Figure 3. No. of Korea's outbound tourists



Source: Korea Tourism Organization, Mirae Asset Daewoo Research

Figure 4. No. of inbound tourists



Source: Korea Tourism Organization, Mirae Asset Daewoo Research

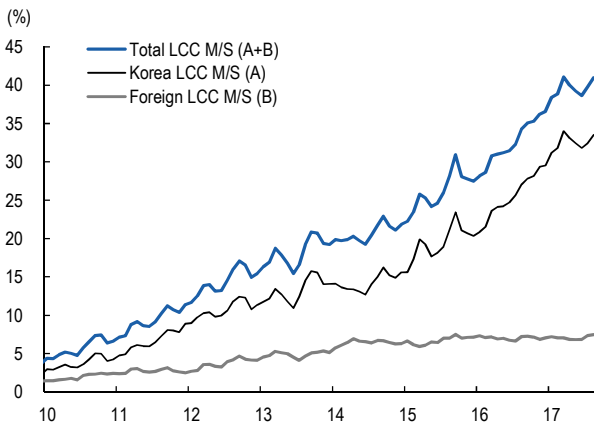
2. LCCs' market share gains

LCCs' share of the domestic airline market exceeded the 10% mark in 2010 and has grown at a CAGR of around 5%p thereafter. Although the share of LCCs in the domestic airline market is currently higher than that of LCCs in the global market, the domestic LCC market still has ample room for growth, in light of the strong growth potential of the Northeast Asian market (including Korean, China, Japan, Taiwan, and Hong Kong). The Northeast Asian market is optimal for LCC's operations, in terms of distance and population (1.6bn).

For China, LCCs still have a low presence, due to: 1) limited air transport liberalization; and 2) a relatively low number of foreign independent travelers. However, this also implies high growth potential of the Chinese LCC market. If the degree of air transport liberalization expands, LCCs will be able to increase their flights, leading to lower ticket prices and higher passenger traffic.

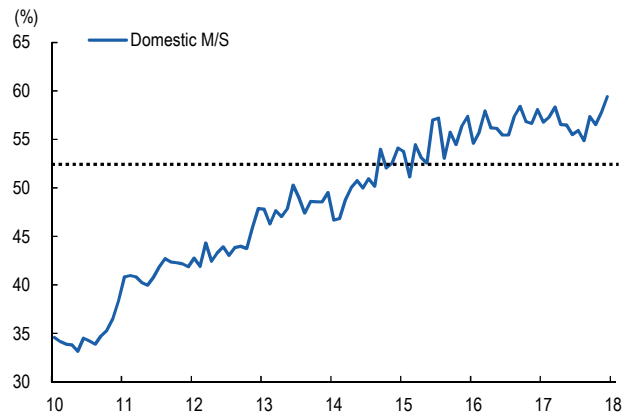
It should be noted that LCCs were first created in developed markets, where air travel is more predominant, and thus focus more on price than convenience (services). This preference for lower ticket prices is more prominent on short-haul routes. With the expansion of Northeast Asian economies, the number of price-sensitive travelers will likely increase further.

Figure 5. LCCs' market share in international short-haul routes



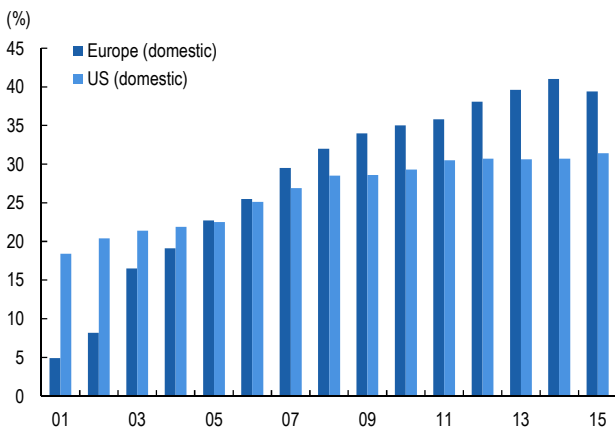
Source: IIA, KAC, Mirae Asset Daewoo Research

Figure 6. LCCs' market share in domestic short-haul routes



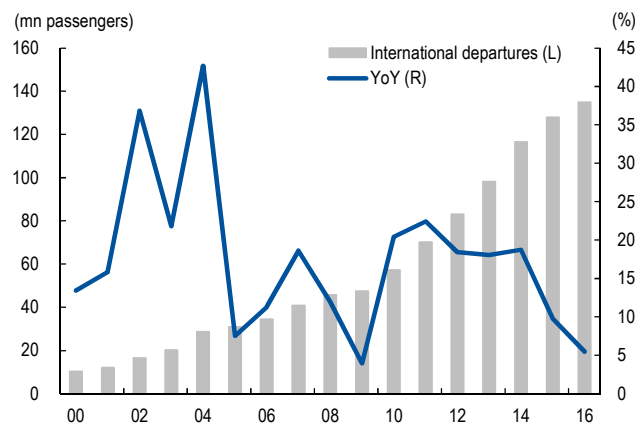
Source: IIA, KAC, Mirae Asset Daewoo Research

Figure 7. LCCs' market shares in Europe and the US



Source: CAPA, Mirae Asset Daewoo Research

Figure 8. Number of Chinese outbound travelers



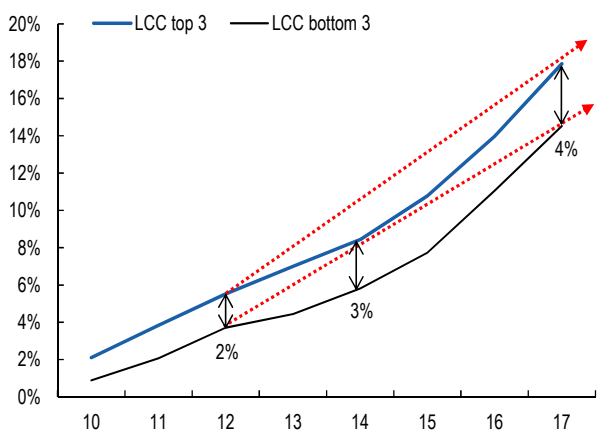
Source: CEIC, Mirae Asset Daewoo Research

3. Competition in LCC market

Korea has six LCCs in operation, a not-insignificant number, in light of the country's population and land size. Furthermore, a new player is seeking to enter the domestic LCC market. However, the industry's landscape is gradually being reshaped, with top-tier firms dominating the market. Over time, new players will likely face higher barriers to entry.

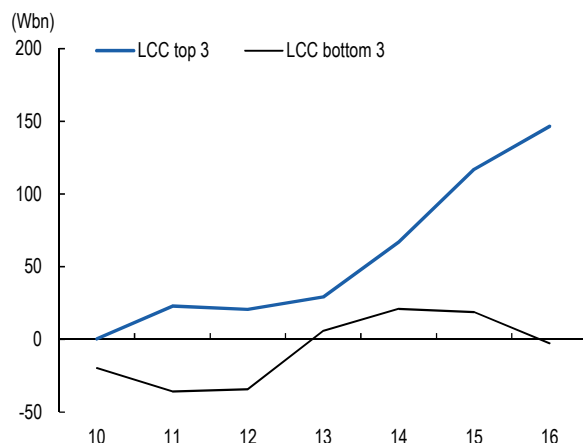
The gap in combined market share between the three top-tier firms and three second-tier firms (in terms of revenue) has been steadily widening. Although T'way Air, a second-tier firm, recently made a splash by gaining market share over Air Busan, top-tier firms' market shares remain steady. In terms of earnings, the gap is even wider. Even considering that Air Seoul, the weakest player, is suffering losses, second-tier firms lag far behind first-tier firms, in earnings growth.

Figure 9. Combined market shares of top-tier and second-tier firms



Source: IIA, Mirae Asset Daewoo Research

Figure 10. Combined operating profits of top-tier and second-tier firms



Source: Company data, Mirae Asset Daewoo Research

Of note, the government has rejected license applications by two LCCs (Aero-K and Yangyang Flight), citing: 1) intense competition; 2) the lack of financial soundness; and, 3) inadequate slots at airports. It is difficult to meet all of the requirements for an LCC business license, which include: 1) W15bn in capital; 2) at least three aircraft; 3) stable financials; 4) safety measures; 5) user convenience; 6) efforts to avoid excessive competition; and 7) a ban on foreign control.

Furthermore, the Ministry of Land, Infrastructure and Transport is moving to raise the minimum capital and aircraft requirements, which would make it more difficult for new players to enter the LCC market. Even if tighter capital and aircraft requirements are met, new players would face another obstacle arising from limited airport slots. One of the reasons behind the government's decision to reject Aero-K's license application is reported to be uncertainties over slots at Cheongju International Airport, where Aero-K is based.

More worrisome is the lack of slots at Jeju International Airport. Margins on Jeju routes (particularly the Gimpo-Jeju route) have recently been high. Airlines could maximize their aircraft utilization by placing Jeju flights between international flights. However, the Jeju airport is already operating at full capacity, while existing airlines are striving to keep their slots, posing an obstacle to new entrants, which are desperate to ensure margins in the early stages of their operation.

Table 3. New entrants

	Launch date	Fleets	Equity (Wbn)	Base	Shareholders	Notes
Aero K	4/18	Airbus A320 (8)	45	Cheongju Airport	Hanwha (22%), Atinum Investment (22%), Bubang (10%)	Licensee application rejected
Fly YangYang	12/17	B737-800 (3)	18.5	Yangyang International Airport	Tony Moly (10%, W1.5bn), Shinsegae Duty Free (W1bn)	Licensee application rejected
Air Daegu	4/18	-	(500)	Daegu Airport		
Nambu Air	2H18	-	(100)	Miryang	Gyeongsangnam-do (W10bn), local financial investors (W10bn); plans to raise the remaining W80bn from airlines and companies in Gyeongsangnam-do	
Prime Air	12/17	CRJ200	3	Ulsan Airport		
Air Pohang	10/17	CRJ200 (3)	(10)	Pohang Airport	DH Electronics (W5.1bn); plans to raise the remaining W4.9bn by year-end; Gyeongsangbuk-do and the city of Pohang plan to invest W2bn and W4bn, respectively, over the next 2 years	

Source: Mirae Asset Daewoo Research

Figure 11. Jeju International Airport's annual passenger traffic



Source: KAC, Mirae Asset Daewoo Research

Figure 12. Cheongju Airport's annual passenger traffic



Source: KAC, Mirae Asset Daewoo Research

IV. Three competitive factors

1. Advantages of large aircraft

Jin Air’s most distinguishing factor is its fleet of large aircraft (Boeing 777), which allows the airline to service long-haul routes. The Boeing 737, a small-sized airliner, allows for a maximum distance of 5,425km, with flight durations of up to six hours, while the Boeing 777 boasts a maximum distance of 14,316km, with flight durations of up to 15 hours, enabling Jin Air to offer Singapore, US, and Europe routes.

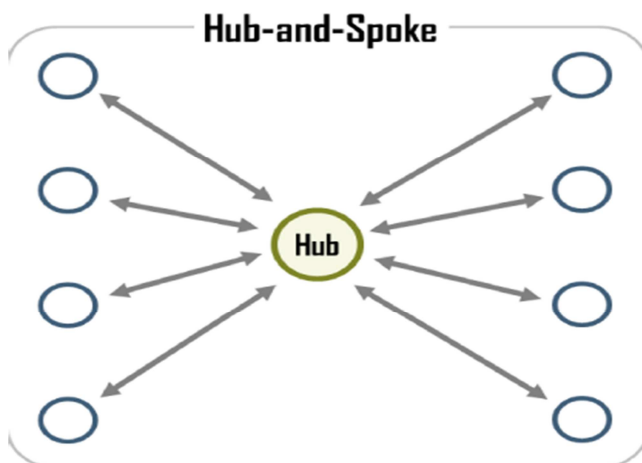
LCCs, which are not positioned to employ a hub & spoke route system, can target niche markets based on a point-to-point system, rather than seeking operations in major hub airports in the US or Europe. Jin Air’s point-to-point routes include Hawaii (US; opened in 2015), Cairns (Australia; opened in 2016), and Johor Bahru (Malaysia; opened in 2018).

Table 4. Boeing 737 vs. Boeing 777

Specifications	B737-800	B777-200ER
Length (m)	39.5	63.7
Wingspan (m)	34.3	60.9
Height (m)	12.5	18.5
Engines	2	2
Total thrust (kN)	242	834
MTOW (kg)	79,000	297,560
Range (km)	5,425	14,316
Cruise speed (M)	0.785	0.84
Capacity	162	301
Capacity (Jin Air)	189	393

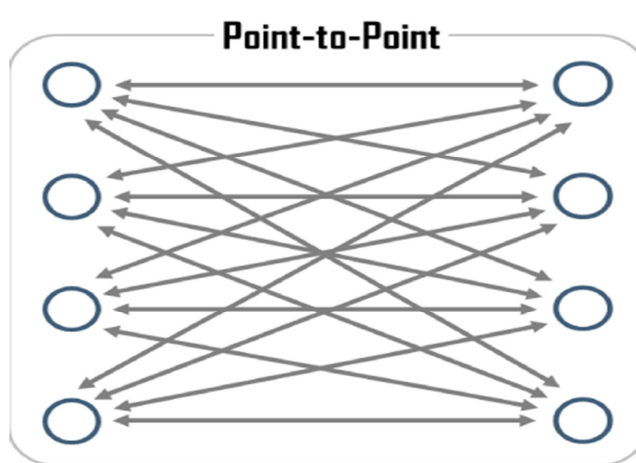
Source: Boeing, Aviatorjoe, Jin Air, Mirae Asset Daewoo Research

Figure 13. Hub-and-spoke system



Source: Hofstra University, Mirae Asset Daewoo Research

Figure 14. Point-to-point system



Source: Hofstra University, Mirae Asset Daewoo Research

Having large aircraft requires flexible operation, as it increases operating leverage. When L/F falls, losses expand on high fixed costs. However, when L/F climbs, profitability can be maximized. For its recently opened Johor Bahru route, Jin Air needs to analyze demand further. The airline operates the Hawaii and Cairns routes intermittently, focusing on the peak season.

For the Hawaii route, Jin Air incurred losses due to continued operation in the off-peak season in 2Q16 and 4Q16, but minimized losses via flexible operation in 2Q17. Load factor is expected to be weak, due to the monthly volatility of passenger demand in September and October; however we believe the traffic should recover in 2018.

The Johor Bahru route currently displays a high L/F of around 85%, thanks to its geographical proximity to Singapore.

Table 5. Jin Air's major long-haul routes

	Hawaii routes				Cairns routes	
	2016		2017		2017	
	Flights	L/F	Flights	L/F	Flights	L/F
Jan	44	78.2	45	80.4	17	95.8
Feb	42	68.2	35	81.0	4	78.4
Mar	42	41.6	8	53.3	-	-
Apr	42	43.2	-	-	-	-
May	45	43.7	5	35.9	-	-
Jun	43	60.6	43	69.4	-	-
Jul	44	83.7	45	79.2	-	-
Aug	44	85.0	44	81.5	-	-
Sep	41	73.6	42	76.8	-	-
Oct	45	78.8	45	71.4	-	-
Nov	40	71.2	43	56.2	-	-
Dec	42	79.6	44	72.7	6	59.5

Note: Based on airport data

Source: IIA, Mirae Asset Daewoo Research

Table 6. Operation of Johor Bahru route (as of January 22nd, 2018)

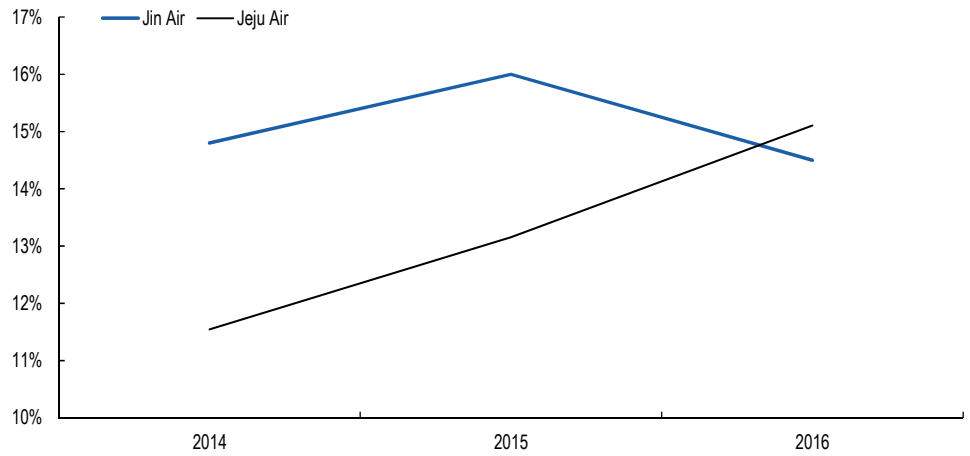
Flights	Passengers	Passengers per flight	L/F
12	4,029	336	85.4

Source: IIA, Mirae Asset Daewoo Research

Having large aircraft also allows Jin Air to enjoy the effect of increased flights on routes with limited slots. Under the same slots, a fleet of larger aircraft has higher service capacity. This is the case with the Gimpo-Jeju route and some Japan routes.

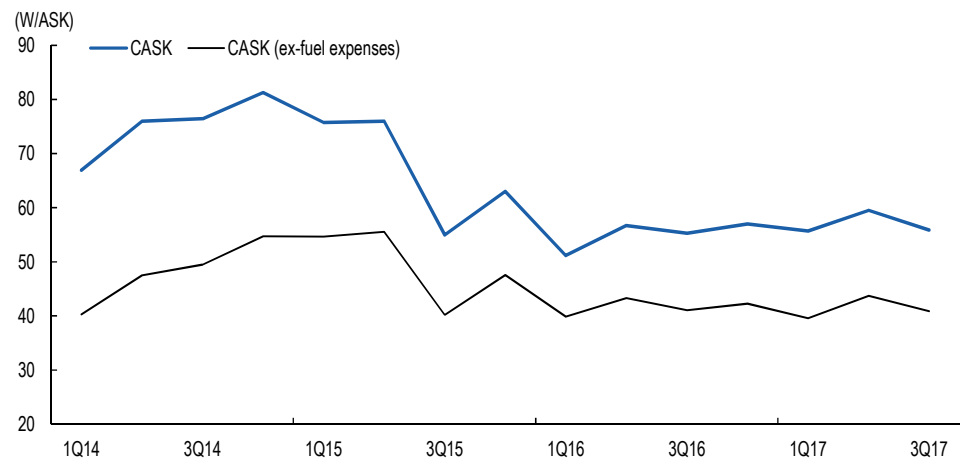
Assuming that L/F remains stable, another benefit of having large aircraft is cost reduction arising from lower CASK. For example, there is no difference in labor costs for the operation of the Boeing 737 and Boeing 777, due to the same number of flight attendants needed. However, the Boeing 777 incurs lower CASK, as it has 90 more seats. Indeed, Jin Air has seen a sharp fall in CASK since its introduction of the Boeing 777 in 2015.

Figure 15. Labor costs as a percentage of revenue: Jin Air vs. Jeju Air



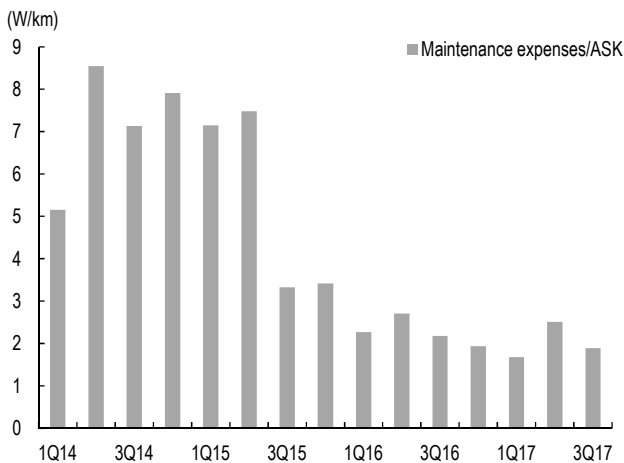
Source: Company data, Mirae Asset Daewoo Research

Figure 16. Jin Air's CASK



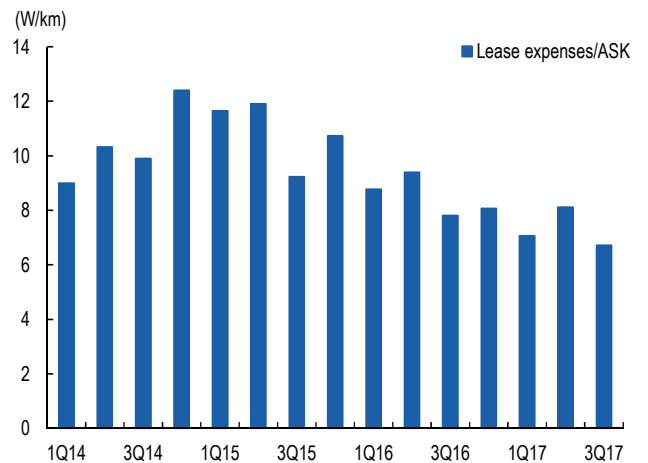
Source: Jin Air, Mirae Asset Daewoo Research

Figure 17. Maintenance costs/ASK



Source: Jin Air, Mirae Asset Daewoo Research

Figure 18. Rental costs/ASK



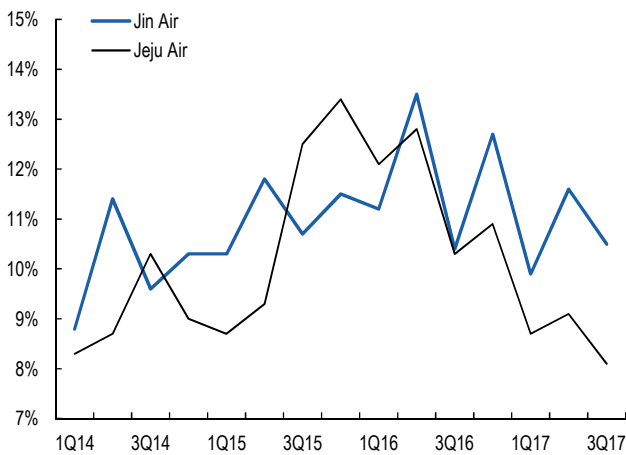
Source: Jin Air, Mirae Asset Daewoo Research

2. Piggy-back effect

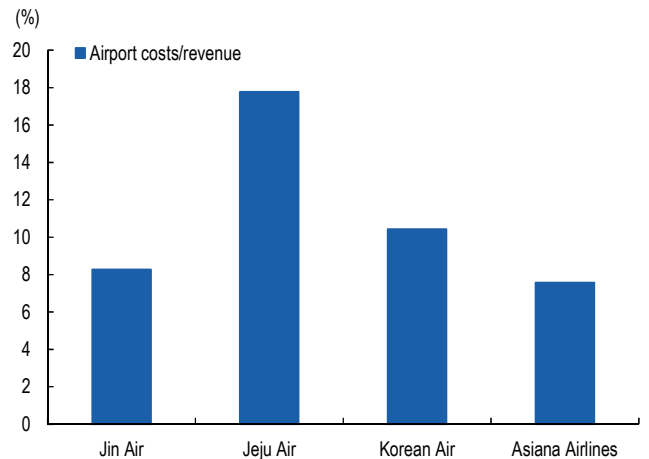
Jin Air's ties with Korean Air, the largest domestic airline, enable it to: 1) increase its L/F on major routes through code-sharing; 2) lower maintenance and overhead costs; and 3) ensure the efficient utilization of flight attendants.

Jin Air can tap into Korean Air's well-equipped maintenance facilities. Without Korean Air's facilities, Jin Air would have to move its aircraft to an overseas maintenance depot, leading to higher costs and lower aircraft utilization. Indeed, despite the operation of two different aircraft models, Jin Air's maintenance-costs-to-revenue ratio is not much different from its competitors and has recently been on the decline.

Figure 19. Maintenance costs as percentage of revenue **Figure 20. Airport-related costs as percentage of revenue (2016)**

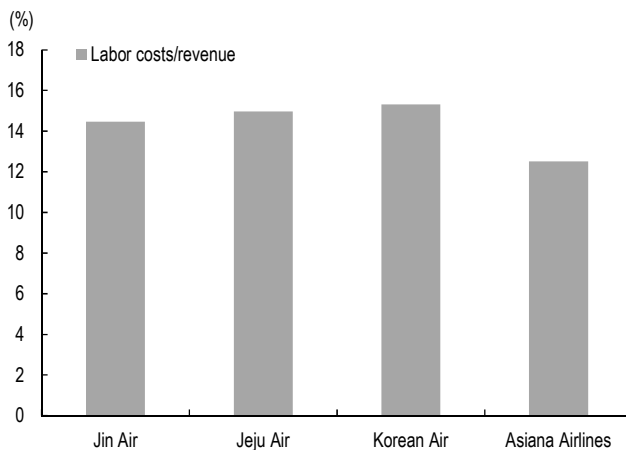


Source: Company data, Mirae Asset Daewoo Research

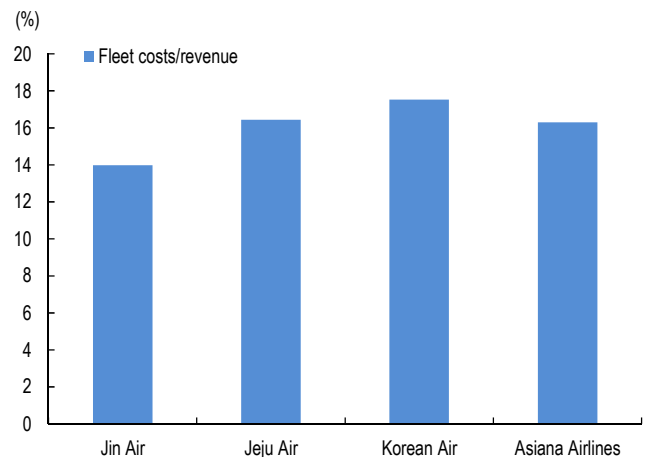


Source: Company data, Mirae Asset Daewoo Research

Figure 21. Labor costs as percentage of revenue (2016) **Figure 22. Aircraft-related costs as percentage of revenue (2016)**



Source: Company data, Mirae Asset Daewoo Research

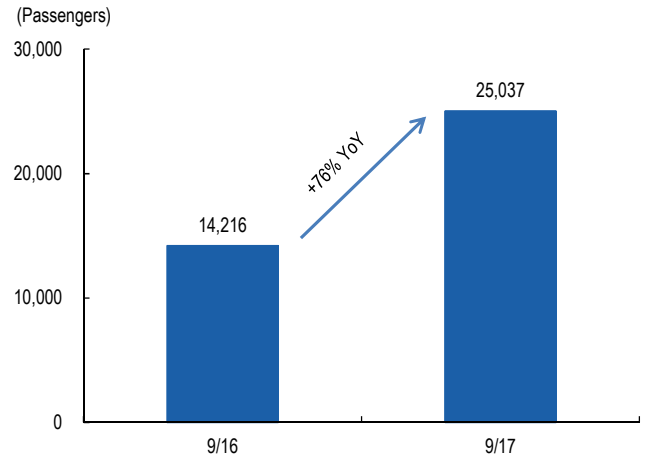
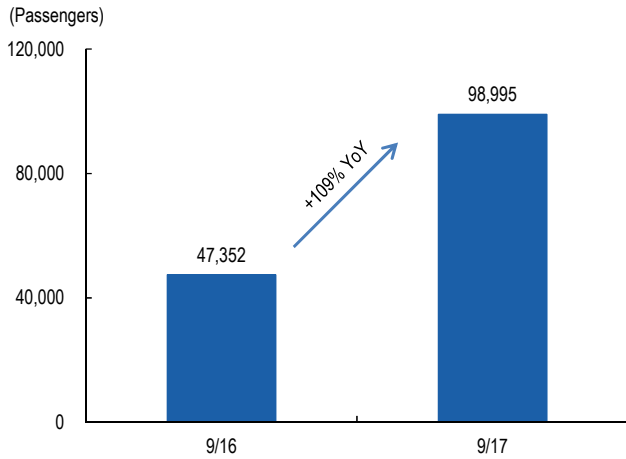


Note: Aircraft-related costs are the sum of depreciation expenses and rental costs
Source: Company data, Mirae Asset Daewoo Research

Jin Air can increase its passenger traffic and L/F through code-sharing with Korean Air. In 1Q17-3Q17, passenger traffic arising from **code-sharing more than doubled**, to around 100,000, while transfer traffic soared 76% YoY, to around 25,000 passengers. Demand for code-sharing and transfer accounts for only 3% of total international passenger traffic, but has a significant impact on L/F. We believe that this demand deserves attention in light of high growth potential.

Figure 23. Code-sharing traffic with Korean Air

Figure 24. Transfer traffic with Korean Air



Note: Cumulative, as of September 2016,
Source: Jin Air, Mirae Asset Daewoo Research

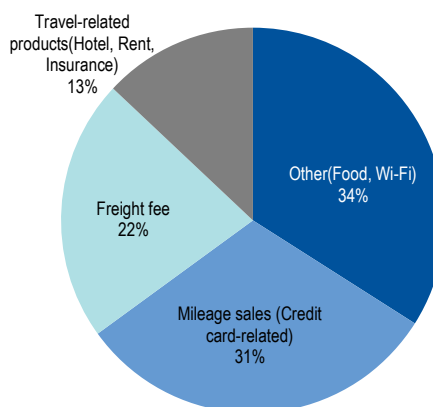
Note: Cumulative, as of September 2016
Source: Jin Air, Mirae Asset Daewoo Research

3. Ancillary revenue: Ample upside potential

Meanwhile, the contribution of ancillary revenue to Jin Air’s total revenue stood at 4.2%, as of 2016, which is relatively lower than peers. Airlines’ ancillary revenue includes baggage surcharges, pre-order in-flight meals, in-flight duty-free sales, preferred seat selection, adjacent seat purchase, and airport lounge services.

Globally, airlines’ combined ancillary revenue has grown steadily, with the ancillary revenue contribution at leading LCCs exceeding 32% in 2016. The percentage has increased at a CAGR of 2.5%p since 2011. At Korean LCCs, revenue contribution from ancillary items is still below 5%, but has also been improving steadily, at a CAGR of 1%pt since 2013.

Figure 25. Ancillary revenue breakdown at most global airlines



Source: CARTRAWLER, IdeaWorksCompany, Mirae Asset Daewoo Research

Table 7. Ancillary revenue as a percentage of total revenue at major LCCs

LCC	2016	2011	Change (%p)
Spirit	46.4%	33.2%	↑ 13.2 points
Frontier	42.4%	7.7%	↑ 34.7 points
Allegiant	40.0%	27.0%	↑ 13.0 points
Wizz Air	39.4%	27.9%	↑ 11.5 points
Ryanair	26.8%	20.5%	↑ 6.3 points
Jet2.com	26.0%	27.1%	↓ -1.1 points
Volaris	24.3%	9.5%	↑ 15.3 points
Jetstar	22.0%	15.3%	↑ 6.7 points
Pegasus	22.0%	10.1%	↑ 11.9 points
Average	32.1%	19.8%	↑ 12.3 points

Source: IdeaWorksCompany, Mirae Asset Daewoo Research

Unlike other LCCs, Jin Air provides free in-flight meals, and implements less strict baggage surcharge and seat selection fee policies. The company has difficulties in scaling down ancillary services, as it shares a significant proportion of customers with Korean Air.

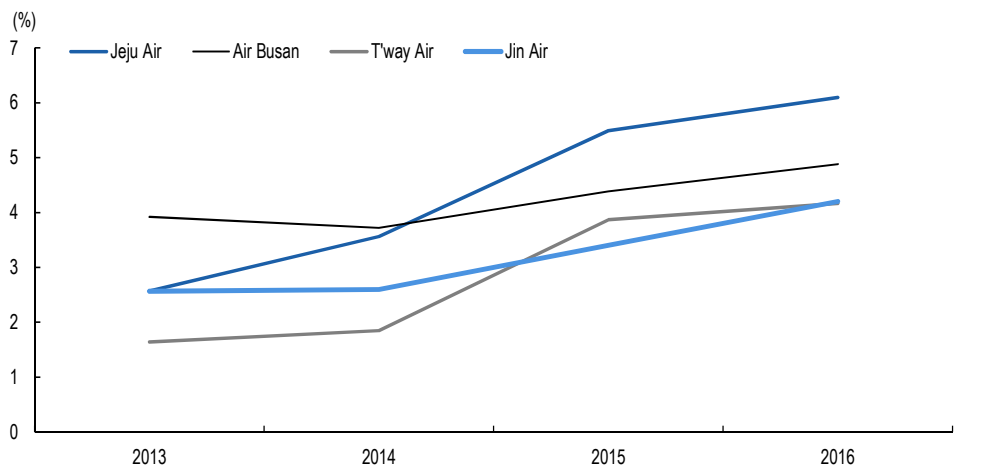
However, Jin Air has managed to steadily improve its ancillary revenue. In our view, the company has been facing increasingly less resistance in charging fees for ancillary services, in line with the increase in awareness and flight experience of passengers. The company plans to expand ancillary service offerings via the Passenger Service System (PSS) program, which is expected to include online services (baggage surcharge coupons, seat selection, etc.) and travel-related services.

Table 8. Jin Air to expand ancillary revenue via PSS program

Flight-related services		Travel-related services	
In-flight meal	Special meals Online preorder Expansion of in-flight sales items	Car rental	Domestic: Hanjin Transportation, AJ Rentacar Overseas: Hertz, Rentalcar.com
Additional online services	Bundled product sales (ex. flight tickets + JINI Play, etc.) Baggage surcharge coupons Seat selection	Travel insurance	Partnership with ACE American Fire and Marine Insurance Company
In-flight duty-free sales	Improvement in in-flight payment solutions and diversification of duty-free product offerings	Hotel	Partnership with Booking.com

Source: Jin Air, Mirae Asset Daewoo Research

Figure 26. Ancillary revenue as % of total revenue at major domestic LCCs



Source: Company data, Mirae Asset Daewoo Research

V. Earnings outlook

1. Net profit to display three-year CAGR of 21.2%

We estimate the number of seats will increase 56.4% from 2017 to 2020, given Jin Air's fleet expansion plan (to a total of eight B777 and 30 B737 aircraft), and estimate ASK will rise 44.9% during the same period. Accordingly, we estimate Jin Air's revenue will top W1tr in 2018 and reach W1.24tr in 2020.

We estimate operating profit will expand at 15.8% CAGR from W96.2bn in 2017 to W149.4bn in 2020. We also expect Jin Air to maintain a healthy OP margin of more than 11% in 2018 and beyond, although higher oil prices could slow the pace of improvement (versus 10.9% in 2017). Further earnings improvement is likely, with the expansion of ancillary revenue and an expected increase in L/F for B777 aircraft.

Table 9. Annual earnings

(Wbn, %)

	2014	2015	2016	2017F	2018F	2019F	2020F
Revenue	351	461	720	882	1,024	1,128	1,242
-Domestic	121	152	176	175	180	190	189
-International	225	289	511	665	790	869	964
-Other	5	20	33	41	54	70	89
SG&A	22	34	47	57	72	79	87
Operating profit	17	30	52	96	114	131	149
Pretax profit	16	29	51	87	116	134	154
Net profit	13	23	39	66	89	103	117
OP margin (%)	4.8	6.4	7.3	10.9	11.2	11.6	12.0
Pretax margin (%)	4.6	6.3	7.0	9.9	11.3	11.9	12.4
Net margin (%)	3.7	4.9	5.5	7.4	8.7	9.1	9.4
Domestic passengers							
ASK (% YoY)	306.8	52.4	102.5	19.2	19.4	12.0	12.0
RPK (% YoY)	364.3	51.9	100.3	24.5	15.5	13.9	11.1
L/F (%)	92.0	92.9	95.1	95.0	93.9	94.4	94.2
Yield (% YoY)	2.8	-5.4	-5.3	7.8	2.0	2.0	-2.0
International passengers							
ASK (% YoY)	306.8	52.4	102.5	19.2	19.4	12.0	12.0
RPK (% YoY)	306.8	52.4	102.5	19.2	19.4	12.0	12.0
L/F (%)	84.2	83.9	83.0	86.7	83.9	85.3	84.6
Yield (% YoY)	7.8	-11.5	-16.3	5.2	2.9	-3.2	0.0
Dubai oil (\$/bbl)	97	51	41	53	65	65	65
Jet fuel price (\$/bbl)	113	66	53	66	79	79	79
US\$/W rate	1,053	1,131	1,161	1,131	1,050	1,050	1,050

Notes: Based on non-consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research

2. 4Q17 preview: OP of W18.2bn, beating unfavorable market conditions

For 4Q17, we expect Jin Air to post revenue of W225.3bn (+28.8% YoY). We estimate company-wide ASK and revenue passenger kilometers (RPK) increased by 19.4% YoY and 17.6% YoY, respectively. Meanwhile, company-wide L/F likely fell 1.3%p to 84.8%, due to slight weakness in long-haul routes (e.g., Hawaii).

We estimate fuel costs were W66.7bn (+42.1% YoY), due to a 19% YoY increase in jet fuel prices. We believe an improved average passenger yield (10.1% YoY) and won appreciation offset the decline in L/F and increased cost burden. Accordingly, we estimate operating profit at W18.2bn, above both the average of consensus estimates (W13.3bn) and the higher end of the consensus range (W17bn). We believe Jin Air improved its balance sheet by lowering its debt-to-equity ratio to 111% at end-4Q17, from 223% at end-3Q17, thanks to robust earnings and a successful rights offering.

Table 10. 4Q17 preview

(Wbn, %)

	4Q16	3Q17	4Q17F		Growth	
			Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	175	233	225	218	28.8	-3.1
Operating profit	-8	31	18	13	TTB	-42.1
OP margin (%)	-4.5	13.5	8.1	6.0	TTB	-40.3

Notes: Based on non-consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research

Table 11. Quarterly and annual earnings

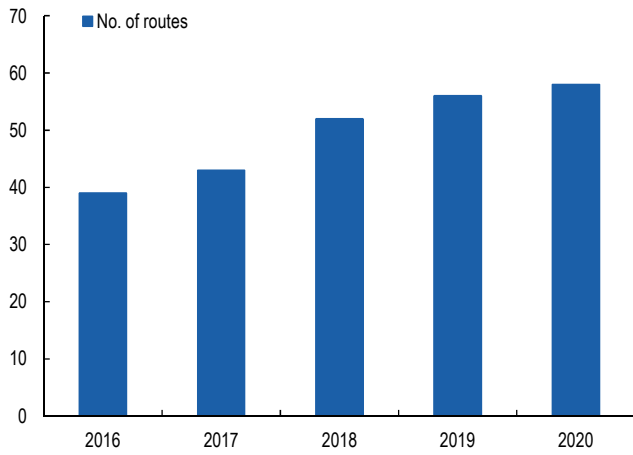
(Wbn, %)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17F	2016	2017F	2018F
Revenue	180	145	219	175	232	192	232	225	720	882	1,024
-Domestic	30	51	54	41	32	56	49	38	176	175	180
-International	143	86	158	124	190	126	173	175	511	665	790
-Other	7	9	8	10	10	10	10	12	33	41	54
Operating profit	27	-7	40	-8	34	12	31	18	52	96	114
OP margin (%)	15.1	-5.0	18.3	-4.5	14.7	6.5	13.5	8.1	7.3	12.5	11.2
Domestic passengers											
ASK (% YoY)	48.0	30.3	1.9	6.4	1.8	-0.6	-13.1	-15.0	102.5	19.2	19.4
RPK (% YoY)	54.2	35.6	4.4	6.5	2.3	-1.7	-12.9	-15.0	100.3	24.5	15.5
L/F (%)	94.8	95.6	94.7	95.3	95.2	94.6	94.9	95.3	95.1	95.0	93.9
Yield (% YoY)	-14.2	-12.4	19.3	-10.7	4.6	12.0	5.4	9.0	-5.3	7.8	2.0
International passengers											
ASK (% YoY)	159.9	160.8	81.3	58.7	21.1	14.9	15.2	25.0	102.5	19.2	19.4
RPK (% YoY)	146.9	139.7	88.2	62.5	30.2	28.6	17.3	23.6	102.5	19.2	19.4
L/F (%)	82.8	77.3	86.3	84.6	89.0	86.5	87.9	83.6	83.0	86.7	83.9
Yield (% YoY)	-21.5	-37.5	14.1	-10.0	1.9	14.4	-6.4	14.7	-16.3	5.2	2.9
Dubai oil (\$/bbl)	31	43	43	48	53	50	51	59	41	53	65
Jet fuel price (\$/bbl)	43	55	55	61	65	61	65	73	53	66	79
US\$/W rate	1,201	1,163	1,120	1,158	1,154	1,130	1,133	1,108	1,161	1,131	1,050

Notes: Based on non-consolidated K-IFRS

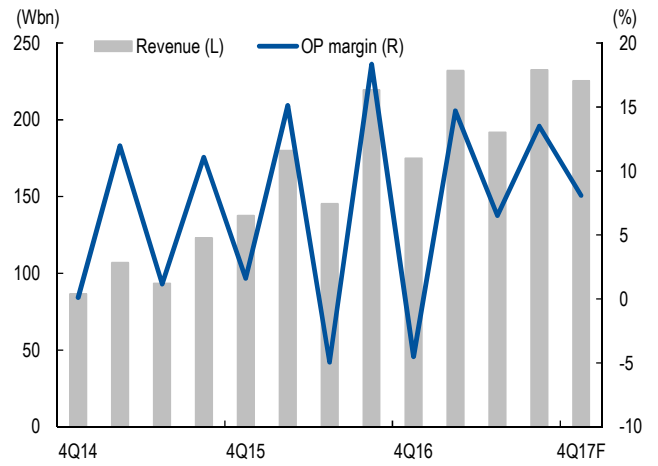
Source: Company data, Mirae Asset Daewoo Research

Figure 27. # of routes at Jin Air



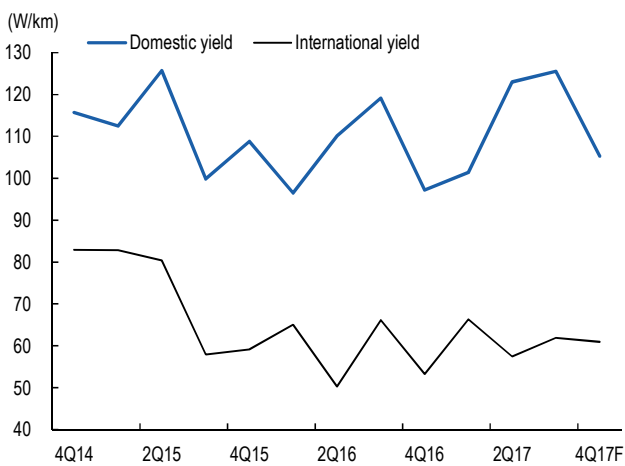
Source: Jin Air, Mirae Asset Daewoo Research

Figure 28. Revenue and OP margin



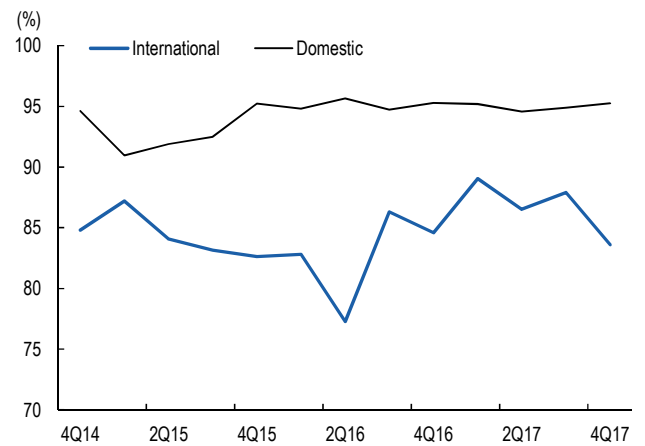
Source: Jin Air, Mirae Asset Daewoo Research

Figure 29. Domestic and international route yield trends



Source: Jin Air, Mirae Asset Daewoo Research

Figure 30. Domestic and international route L/F trends



Source: Jin Air, Mirae Asset Daewoo Research

VI. Risks

1. Oil price uptrend

LCCs tend to display high earnings sensitivity to oil prices. At LCCs, fuel costs account for a high percentage of total costs as they have already streamlined other expenses. With the absence of replacements for jet fuel, LCCs have few ways to reduce risks from oil price increases, other than hedges.

Jin Air consumes about 3mn bbl of jet fuel annually. A US\$1 rise in jet fuel price pushes up the company's annual operating expenses by W3.2bn. Factoring in the effect of fuel surcharges, however, the actual sensitivity should decline to below W2bn. The recent won appreciation is also positive for cost reduction.

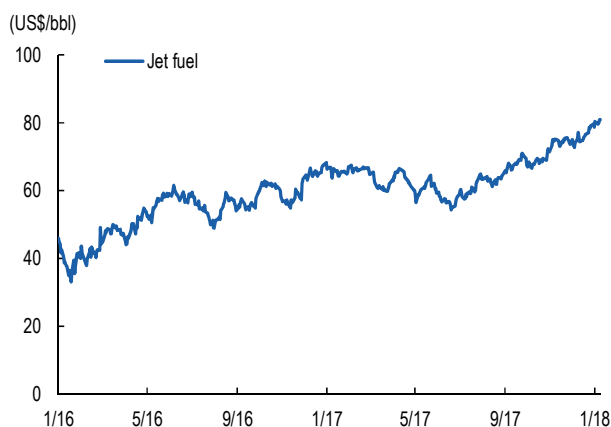
In 2017, the average jet fuel price rose 22.4% YoY to US\$66/bbl, which should have boosted Jin Air's operating expenses by W30-40bn. However, the company's annual operating profit is projected to have improved 85% YoY to W44bn. In our view, the impact of positive factors, such as demand growth amid the economic recovery and fare hikes, outweighed negatives from oil price increases.

Table 12. Sensitivity to a US\$1 change in the price of jet fuel

Item	Jin Air
Oil consumption '000 bbl	3,074
Operating expense Wmn	3,228
Fuel surcharge Wmn	1,291
Operating profit Wmn	-1,937
F/X rate US\$/W	1,050

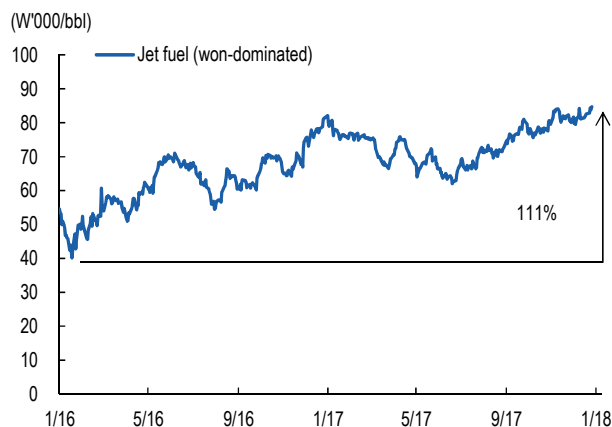
Source: Mirae Asset Daewoo Research

Figure 31. Jet fuel price trend



Source: Bloomberg, Mirae Asset Daewoo Research

Figure 32. Won-translated jet fuel price trend



Source: Bloomberg, Mirae Asset Daewoo Research

Table 13. South Korea's passenger flight fuel surcharges

(\$/bbl, \$)

MOPS	Japan routes		Other routes	
	Busan,Jeju/Fukuoka	Others	Short routes	Long routes
63~67	1	1	2	5
67~71	3	3	6	14
71~75	5	5	10	23
76~79	7	7	14	32
80~84	8	9	18	41
84~88	10	11	22	50
88~92	12	13	26	59
92~96	14	15	30	68
97~100	16	17	34	77
101~105	18	20	38	86
105~109	20	22	42	95
109~113	22	24	46	104
113~117	23	26	50	113
118~121	25	28	54	122
122~126	27	30	58	131
126~130	29	32	62	140
130~134	31	34	66	149
134~138	33	36	70	158
139~142	35	38	74	167
143~146	37	40	78	176
147~151	38	42	82	185
151~155	40	44	86	194
155~159	42	46	90	203
160~163	44	48	94	212
164~167	46	50	98	221
168~172	48	52	101	230
172~176	50	54	105	239
176~180	52	56	109	248
180~184	53	59	113	257
185~188	55	61	117	266
189~193	57	63	121	275
193~197	59	65	125	284
197~	61	67	129	293

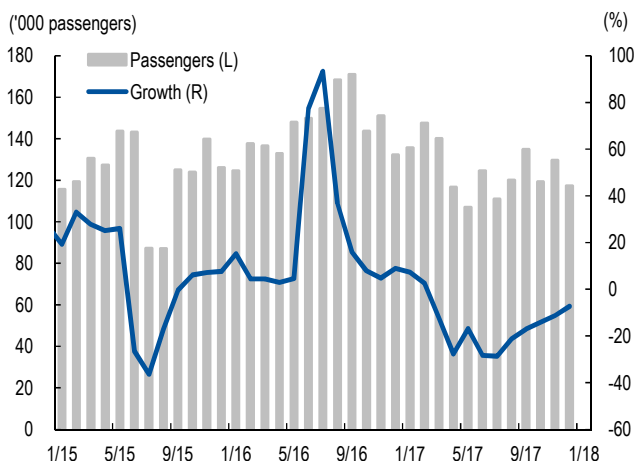
Source: Airtravelinfo, Mirae Asset Daewoo Research

2. Demand for China routes to recover

Demand for China routes plunged in the face of heightening tension with China and China's ban on group travel to Korea. However, the rate of decline on China routes has slowed to the single digit level. According to Incheon International Airport (IIA) data, passenger traffic on China routes fell by 7.3% YoY in December 2017. Should this trend continue, we anticipate passenger traffic on China routes will make an upturn in 2Q18-3Q18, in light of improving relations with China.

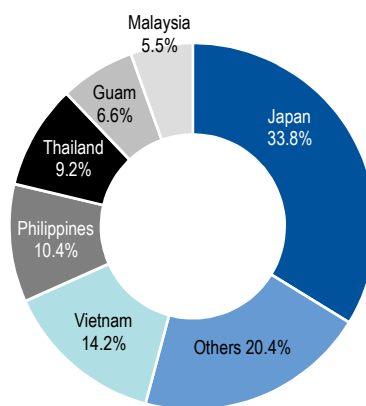
Jin Air's China routes account for a marginal share of its business in terms of the number of seats, which explains why the company has been spared from direct hits. Nevertheless, we believe there must have been an indirect impact on Jin Air. Given that China routes account for 32% of the Asian market and 50% of the Northeast Asian market, improving supply/demand dynamics on China routes are likely to affect non-China routes as well. According, once demand for China routes improves, we expect: 1) an aggressive foray into China; and 2) an increase in L/F resulting from improving supply/demand conditions on non-China routes.

Figure 33. Demand for China routes (based on IIA data)



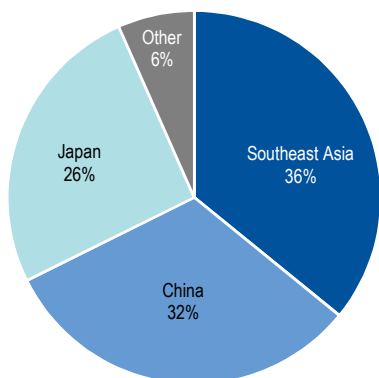
Source: IIA data, Mirae Asset Daewoo Research

Figure 34. Jin Air's route breakdown



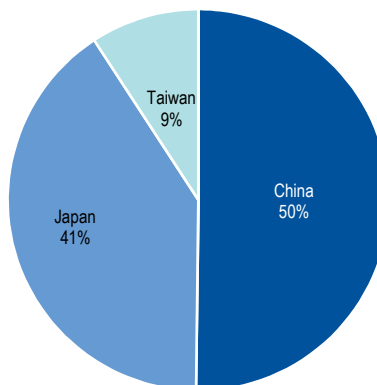
Note: Based on end-January 2018
Source: CAPA, Mirae Asset Daewoo Research

Figure 35. China as % of the Asian market



Note: IIA data on passenger traffic in 2017
Source: Incheon International Airport, Mirae Asset Daewoo Research

Figure 36. China as % of the Northeast Asian market



Note: IIA data on passenger traffic in 2017
Source: Incheon International Airport, Mirae Asset Daewoo Research

3. Key revision to K-IFRS effective from 2019

One of the major changes to K-IFRS that affect the airline industry is the recognition of operating lease commitments as an on-balance sheet liability (effective from 2019). LCCs have employed operating leases to keep their leverage low at the expense of high lease payments. However, the off-balance sheet effects of operating leases are no longer expected from 2018 and onwards.

Accordingly, we estimate LCCs' debt-to-equity ratios will increase more than 200%p, once the new accounting standards take effect. In this context, we believe LCCs' recent efforts to conduct a rights offering or IPO are a preemptive move: 1) to raise funds in advance, as an increase in the debt-to-equity ratio will make it difficult to finance future fleet expansion plans; and 2) to improve their balance sheets to guard against a slump in a highly volatile airline market.

We believe Jin Air and Jeju Air have prepared for upcoming changes to K-IFRS, each reducing their debt-to-equity ratios by 150%p through right offerings and IPO. We expect 2019 will see a widening performance gap between airlines which have successfully implemented rights offerings in 2018 and those who have not.

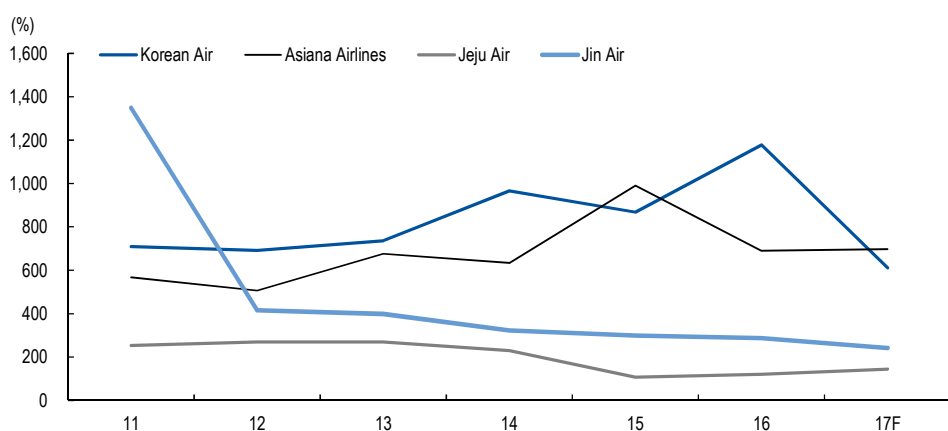
Table 14. Comparison of D/E ratios (after on-balance sheet recognition of operating lease at end-3Q17)

	Korean Air	Asiana Airlines	Jeju Air	Jin Air	Air Busan
Debts	22,154	7,454	454	251	103
Debts (incl. operating lease)	24,242	9,819	908	637	342
Operating lease	2,088	2,365	454	386	239
Less than 1 year	280	494	105	93	59
1-5 years	972	1,308	324	243	154
More than 5 years	837	563	25	50	26
Shareholders' equity	2,983	992	290	225	103
D/E ratio (%)	743	752	156	111	100
Revised D/E ratio (%)	813	990	313	283	332

Note: The sum of operating lease commitments are not discounted; when a discount rate is applied, D/E ratio declines; figures for Jin Air and Air Busan are based on estimates at end-2017 and end-2016, respectively

Source: Company data, Mirae Asset Daewoo Research

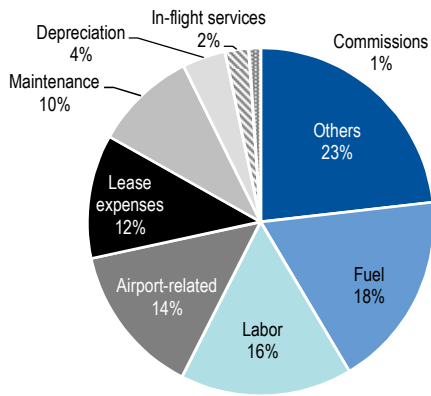
Figure 37. Comparison of D/E ratios



Source: Company data, Mirae Asset Daewoo Research

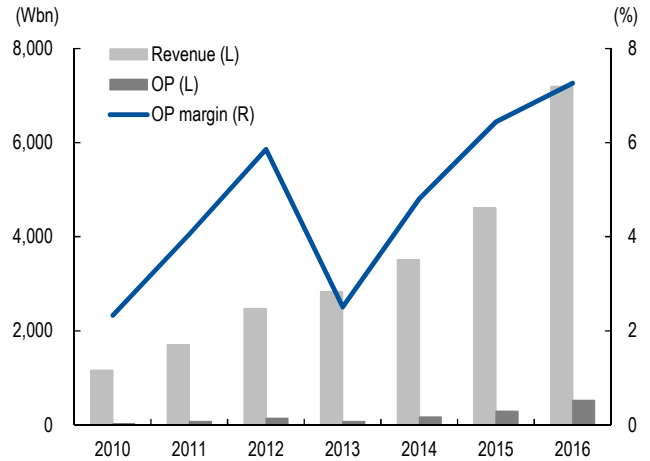
VII. APPENDIX

Figure 38. Jin Air's cost breakdown



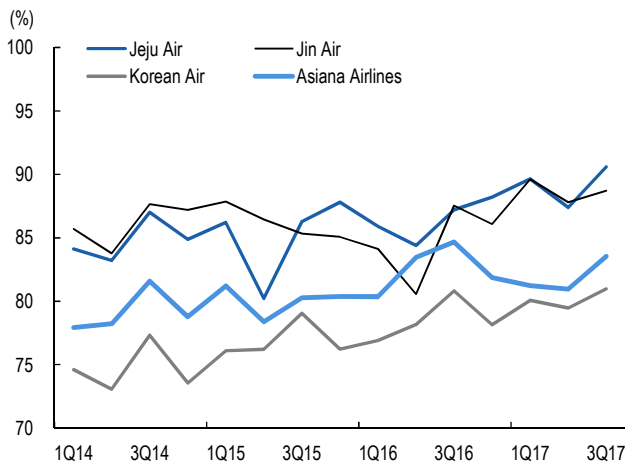
Source: Jin Air, Mirae Asset Daewoo Research

Figure 39. Jin Air's annual revenue and OP trends



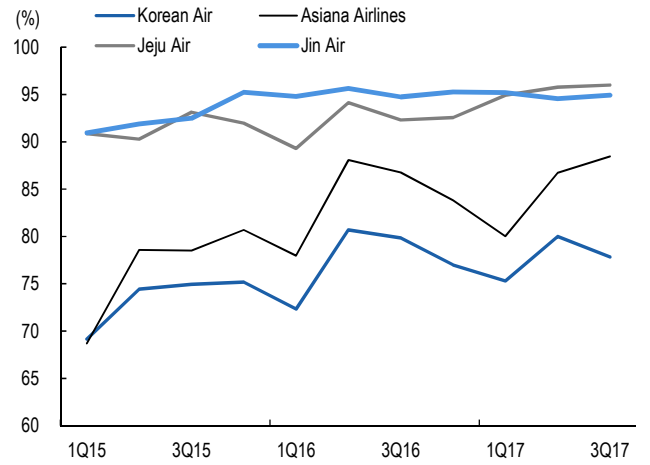
Source: Jin Air, Mirae Asset Daewoo Research

Figure 40. International routes L/F: FSC vs. LCC



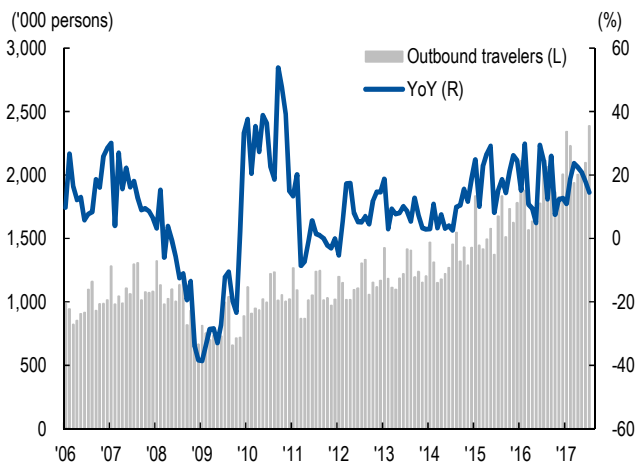
Source: Company data, Mirae Asset Daewoo Research

Figure 41. Domestic routes L/F: FSC vs. LCC



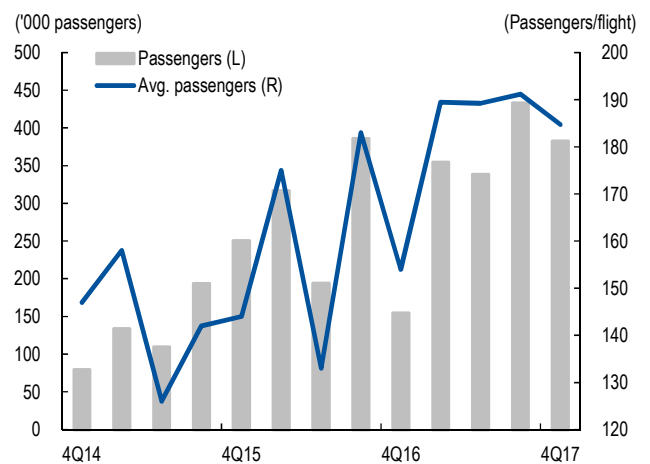
Source: Company data, Mirae Asset Daewoo Research

Figure 42. Korea's outbound travelers and growth



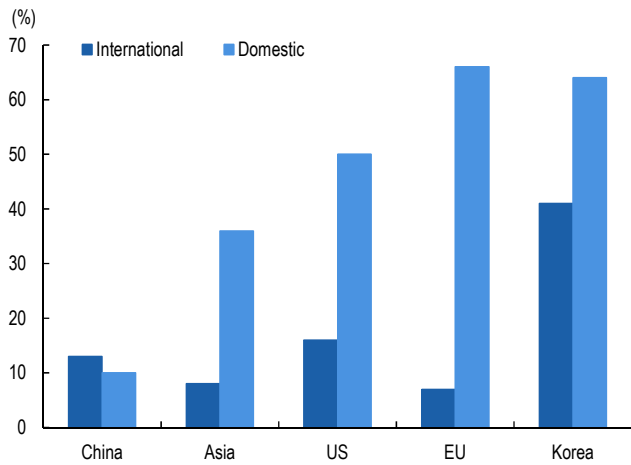
Source: Incheon International Airport, Mirae Asset Daewoo Research

Figure 43. Jin Air's Japanese route passengers and average passenger trend



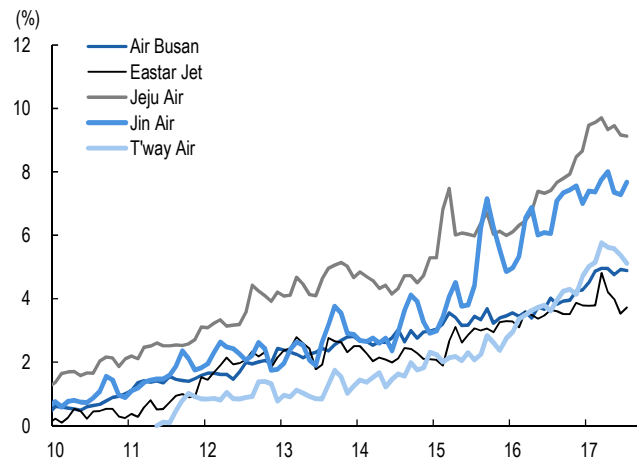
Source: Incheon International Airport, Mirae Asset Daewoo Research

Figure 44. LCCs' combined market share



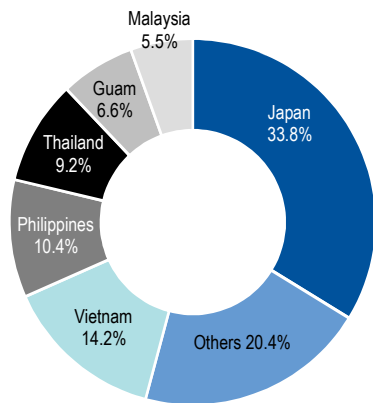
Source: Incheon International Airport, Mirae Asset Daewoo Research

Figure 45. International route market share by domestic LCC



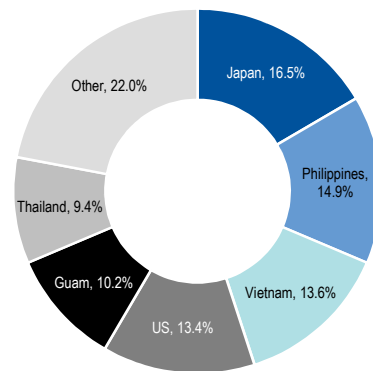
Source: Incheon International Airport, Mirae Asset Daewoo Research

Figure 46. Jin Air's seat supply by route



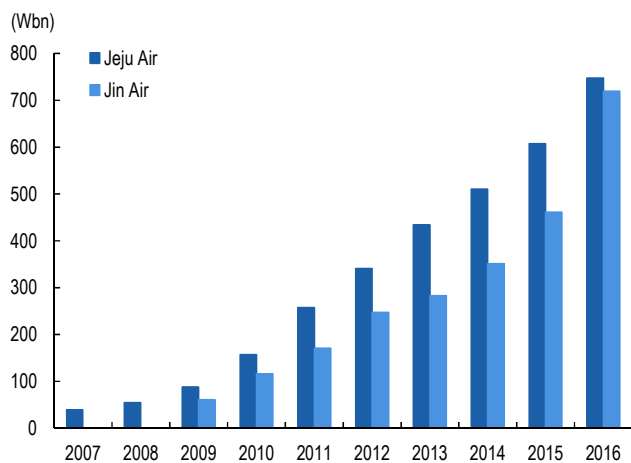
Source: Jin Air, Mirae Asset Daewoo Research

Figure 47. Jin Air's ASK breakdown by route



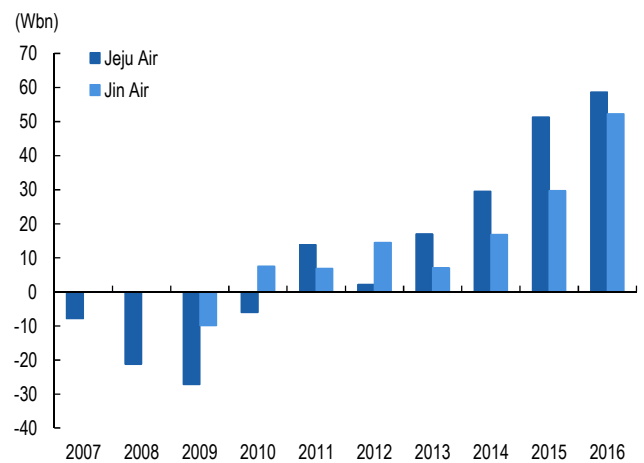
Source: Jin Air, Mirae Asset Daewoo Research

Figure 48. Revenue trend: Jeju Air vs. Jin Air



Source: Mirae Asset Daewoo Research

Figure 49. OP trend: Jeju Air vs. Jin Air



Source: Mirae Asset Daewoo Research

Jin Air (272450 KS/Buy/TP: W38,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Revenue	720	882	1,024	1,128
Cost of Sales	621	728	838	918
Gross Profit	99	154	186	210
SG&A Expenses	47	57	72	79
Operating Profit (Adj)	52	96	114	131
Operating Profit	52	96	114	131
Non-Operating Profit	-1	-9	2	3
Net Financial Income	0	-2	1	3
Net Gain from Inv in Associates	1	0	0	0
Pretax Profit	51	87	116	134
Income Tax	11	22	27	31
Profit from Continuing Operations	39	66	89	103
Profit from Discontinued Operations	0	0	0	0
Net Profit	39	66	89	103
Controlling Interests	39	66	89	103
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	37	66	89	103
Controlling Interests	37	66	89	103
Non-Controlling Interests	0	0	0	0
EBITDA	62	104	121	136
FCF (Free Cash Flow)	68	110	126	131
EBITDA Margin (%)	8.6	11.8	11.8	12.1
Operating Profit Margin (%)	7.2	10.9	11.1	11.6
Net Profit Margin (%)	5.4	7.5	8.7	9.1

Cash Flows (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Cash Flows from Op Activities	69	110	126	131
Net Profit	39	66	89	103
Non-Cash Income and Expense	26	32	32	34
Depreciation	10	8	6	5
Amortization	0	0	0	0
Others	16	24	26	29
Chg in Working Capital	10	31	27	20
Chg in AR & Other Receivables	-5	-5	-5	-3
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	2	0	0	0
Income Tax Paid	-8	-22	-27	-31
Cash Flows from Inv Activities	-77	-40	-35	-26
Chg in PP&E	-1	0	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	-80	-40	-35	-26
Others	4	0	0	0
Cash Flows from Fin Activities	-23	64	-9	-11
Chg in Financial Liabilities	34	-13	0	0
Chg in Equity	0	95	0	0
Dividends Paid	-11	-14	-6	-8
Others	-46	-4	-3	-3
Increase (Decrease) in Cash	-31	133	81	94
Beginning Balance	63	32	165	246
Ending Balance	32	165	246	340

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Current Assets	215	389	507	628
Cash and Cash Equivalents	32	165	246	340
AR & Other Receivables	25	31	36	39
Inventories	0	0	1	1
Other Current Assets	158	193	224	248
Non-Current Assets	87	87	88	88
Investments in Associates	3	4	4	5
Property, Plant and Equipment	41	33	27	22
Intangible Assets	1	1	0	0
Total Assets	302	476	594	715
Current Liabilities	185	211	245	270
AP & Other Payables	10	12	14	16
Short-Term Financial Liabilities	13	0	0	0
Other Current Liabilities	162	199	231	254
Non-Current Liabilities	39	40	41	42
Long-Term Financial Liabilities	34	34	34	34
Other Non-Current Liabilities	5	6	7	8
Total Liabilities	224	251	286	312
Controlling Interests	78	225	308	403
Capital Stock	27	30	30	30
Capital Surplus	0	92	92	92
Retained Earnings	51	103	186	281
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	78	225	308	403

Forecasts/Valuations (Summarized)

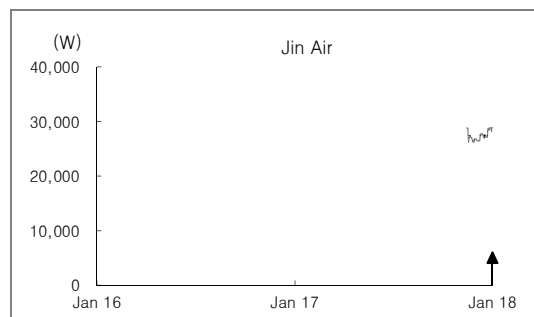
	12/16	12/17F	12/18F	12/19F
P/E (x)	-	11.0	9.8	8.5
P/CF (x)	-	7.4	7.2	6.4
P/B (x)	-	3.5	2.8	2.2
EV/EBITDA (x)	-	4.7	3.7	2.5
EPS (W)	1,457	2,408	2,962	3,419
CFPS (W)	2,402	3,566	4,023	4,549
BPS (W)	2,886	7,513	10,275	13,444
DPS (W)	2,500	200	250	300
Payout ratio (%)	34.3	9.1	8.4	8.8
Dividend Yield (%)	-	0.8	0.9	1.0
Revenue Growth (%)	56.2	22.5	16.1	10.2
EBITDA Growth (%)	93.8	67.7	16.3	12.4
Operating Profit Growth (%)	73.3	84.6	18.8	14.9
EPS Growth (%)	73.2	65.3	23.0	15.4
Accounts Receivable Turnover (x)	33.7	33.1	32.3	31.5
Inventory Turnover (x)	1,715.5	2,101.0	2,050.0	2,000.7
Accounts Payable Turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	15.6	16.8	16.6	15.7
ROE (%)	60.9	43.2	33.3	28.8
ROIC (%)	-43.4	-66.4	-60.9	-58.1
Liability to Equity Ratio (%)	287.9	111.4	92.8	77.3
Current Ratio (%)	116.0	184.5	206.8	232.4
Net Debt to Equity Ratio (%)	-165.6	-136.6	-135.5	-132.1
Interest Coverage Ratio (x)	17.0	19.7	33.5	38.5

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Jin Air (272450)	01/25/2018	Buy	38,000



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 & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	75.50%	16.00%	8.50%	0.00%
Investment Banking Services	62.50%	33.33%	4.17%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2017)

Disclosures

We managed the IPO of Jin Air with one year.

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 or regulations thereof. Each Analyst responsible for the preparation of this report certifies that (i) all views expressed in this report accurately reflect the personal views of the Analyst about any and all of the issuers and securities named in this report and (ii) no part of the compensation of the Analyst was, is, or will be directly or indirectly related to the specific recommendations or views contained in 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. Like all employees of Mirae Asset Daewoo, the Analysts receive compensation that is determined 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 was prepared 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 in good faith and from sources believed to be reliable, 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. In case of 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.

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 or regulations or subject Mirae Asset Daewoo or any of its affiliates to registration or licensing requirements in any jurisdiction shall receive or make any use hereof.

This report is for general information purposes only and it is not and shall not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The report does not constitute investment advice to any person and such person shall not be treated as a client of Mirae Asset Daewoo by virtue of receiving this report. This report does not take into account the particular investment objectives, financial situations, or needs of individual clients. The report is not to be relied upon in substitution for the exercise of independent judgment. Information and

opinions contained herein are as of the date hereof and are subject to change without notice. The price and value of the investments referred to in this report and the income from them may depreciate or appreciate, and investors may incur losses on investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising out of the use hereof.

Mirae Asset Daewoo may have issued other reports that are inconsistent with, and reach different conclusions from, the opinions presented in this report. The reports may reflect different assumptions, views and analytical methods of the analysts who prepared them. Mirae Asset Daewoo may make investment decisions that are inconsistent with the opinions and views expressed in this research report. 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.

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.

Distribution

United Kingdom: This report is being distributed by Mirae Asset Securities (UK) 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: Mirae Asset Daewoo is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This report is distributed in the U.S. by Mirae Asset Securities (USA) Inc., a member of FINRA/SIPC, to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934, as amended. All U.S. persons that receive this document by their acceptance hereof represent and warrant that they are a major U.S. 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 Mirae Asset Securities (USA) Inc. Mirae Asset Securities (USA) Inc. accepts responsibility for the contents of this report in the U.S., subject to the terms hereof, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Mirae Asset Daewoo. 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 Mirae Asset Securities (HK) 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)

Global Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia

Equity Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan
12190
Indonesia
Tel: 62-21-515-3281

Mirae Asset Securities Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area Shanghai
200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.

Suites 1109-1114, 11th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
China
Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building Vila
Olimpia
Sao Paulo - SP
04551-060
Brasil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)
