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Retail

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Mirae Asset Daewoo Co., Ltd.

[Retail]

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Lotte Himart

(071840 KS/Buy)

Smooth sailing ahead in 2018

- Apartment move-ins to grow 14% YoY in 2018, driving home appliance demand
- Shift to premium appliances is becoming a broader trend
- Focus on new demand from category diversification, rather than replacement demand

Growing move-ins to drive home appliance demand

For 2018, we expect Lotte Himart's revenue to slightly increase YoY to W4.22tr (+1.8% YoY). Despite a tough YoY comparison, we believe revenue will grow in 2018, as apartment move-ins are expected to expand 14% YoY this year. Although the correlation between move-in volume and home appliance sales has weakened as appliance categories have become more diversified, we still think move-ins are one of the most important factors driving demand for traditional home appliances. With apartment move-ins likely to continue to rise in 2018, we expect to see a steady flow of demand for traditional home appliances. Move-in volume increased 31% YoY in 2017, during which Lotte Himart's revenue grew 5.2% YoY (based on our estimate).

Shift to premium appliances is becoming a broader trend

High-end appliances launched as part of differentiation/premiumization strategies have been widely embraced by consumers with strong purchasing power. We believe growing demand for premium appliances has become a broader trend, moving beyond refrigerators to TVs and washing machines. Fueled by increasing sales of premium appliances, we expect Lotte Himart's average ticket size to rise in 2018. Demand for high-end washers should continue into 2018, and the premiumization trend should extend further to smaller appliances like vacuum cleaners. We estimate premium appliances accounted for roughly 50% of Lotte Himart's overall revenue at end-2017, up from 38% at end-2016.

Focus on category diversification

Sales of drying machines and air purifiers—two key categories that drove the company's new appliance sales over the past two years—should continue in 2018. While the rate of growth could slow, we still think there is room for demand, as the domestic markets for both air purifiers and dryers remain underpenetrated compared with developed markets. (Though no official data are available, media reports suggest a 20-30% penetration rate for air purifiers and less than 5% for drying machines.)

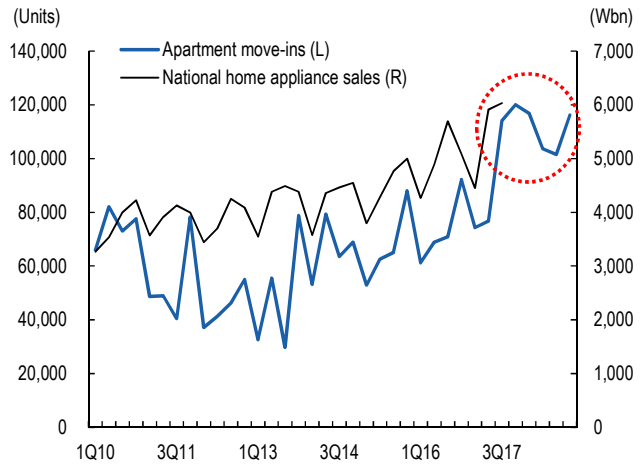
Over the long term, we believe that new appliance demand driven by the diversification of product categories—rather than replacement demand—will take center stage. Going forward, Lotte Himart's product categories should broaden further from air purifiers and drying machines to smart devices, given the rapid growth of the smart home market not only in Korea, but globally as well. In 2018, we expect smart device sales to grow full swing on the back of the proliferation of the Internet of Things and artificial intelligence. We maintain our Buy rating on Lotte Himart.

FY (Dec.)	12/13	12/14	12/15	12/16	12/17F	12/18F
Revenue (Wbn)	3,519	3,754	3,896	3,939	4,143	4,218
OP (Wbn)	185	144	160	175	216	234
OP margin (%)	5.3	3.8	4.1	4.4	5.2	5.5
NP (Wbn)	129	96	107	121	158	174
EPS (W)	5,469	4,085	4,515	5,144	6,676	7,355
ROE (%)	8.4	5.9	6.1	6.6	8.0	8.2
P/E (x)	16.0	16.5	13.1	8.2	10.3	10.0
P/B (x)	1.3	0.9	0.8	0.5	0.8	0.8
Dividend yield (%)	0.3	0.5	0.7	1.2	0.7	0.7

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

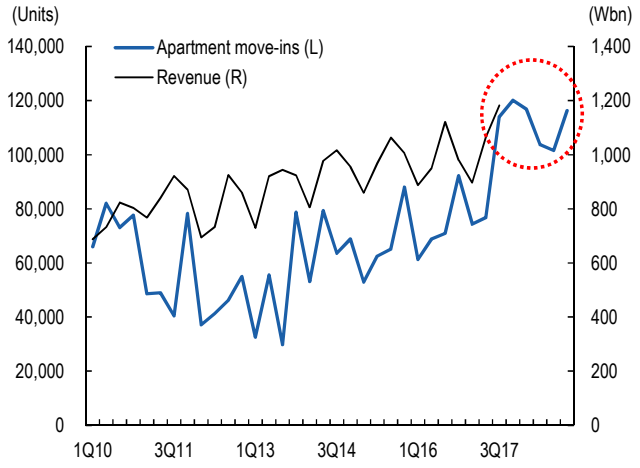
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Figure 1. Apartment move-ins and national home appliance sales



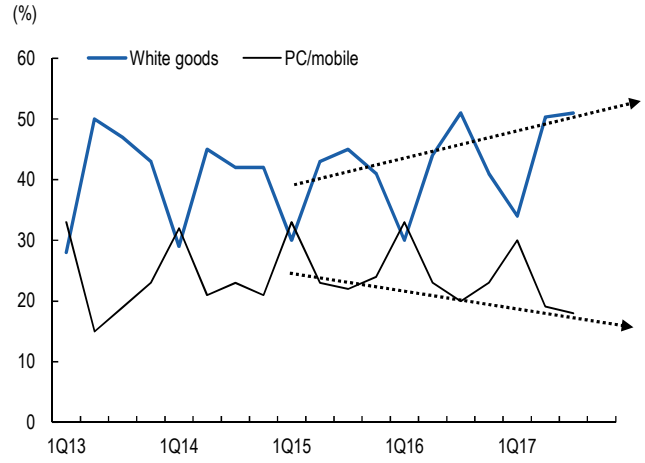
Note: 2018 figures are Real Estate 114 estimates.
Source: Real Estate 114, Mirae Asset Daewoo Research

Figure 2. Apartment move-ins and Lotte Himart revenue



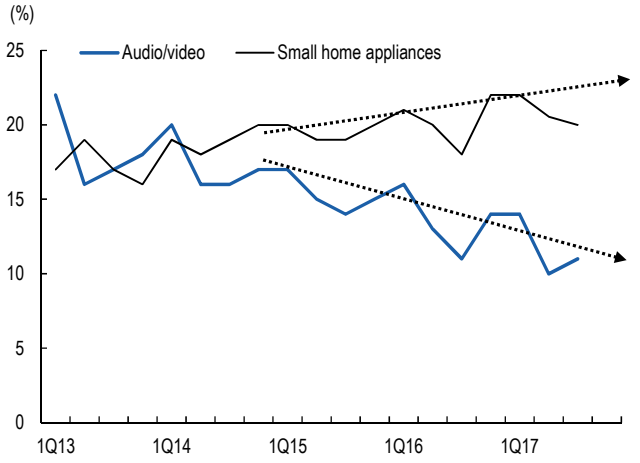
Note: 2018 figures are Real Estate 114 estimates.
Source: Company data, Mirae Asset Daewoo Research

Figure 3. Contributions of white goods and PC/mobile to revenue



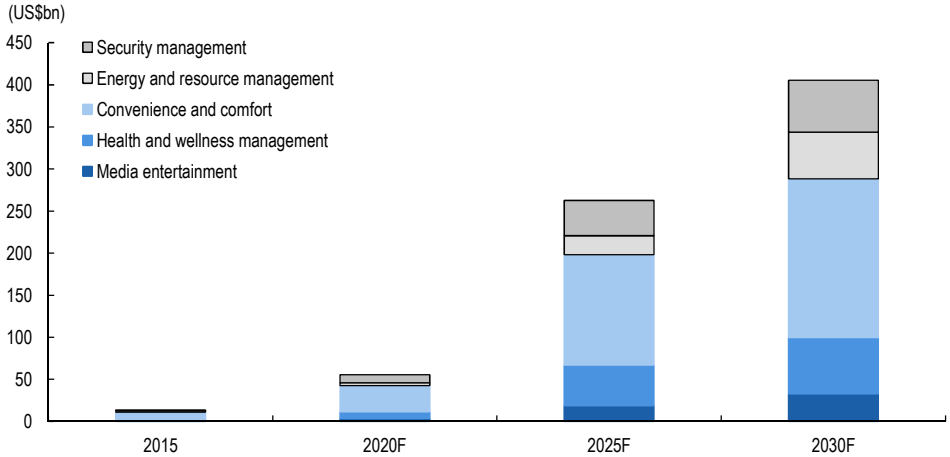
Source: Company data, Mirae Asset Daewoo Research

Figure 4. Contributions of audio/video and small home appliances to revenue



Source: Company data, Mirae Asset Daewoo Research

Figure 5. Global smart home forecasts



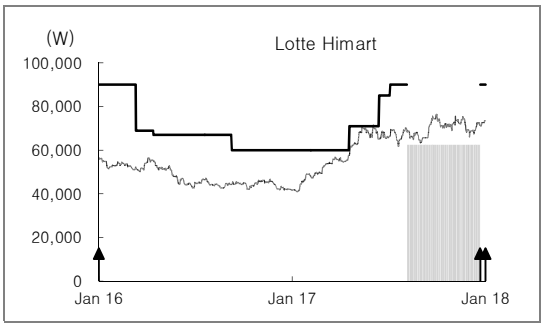
Source: A.T. Kearney Mirae Asset Daewoo Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Lotte Himart (071840)	01/16/2018	Buy	90,000
	08/31/2017	No Coverage	
	07/30/2017	Buy	90,000
	07/09/2017	Buy	85,000
	05/14/2017	Buy	71,000
	10/04/2016	Buy	60,000
	05/09/2016	Buy	67,000
	04/06/2016	Buy	69,000
	11/25/2015	Buy	90,000



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.
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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)

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