Hotel Shilla
(008770 KS)

Another new era

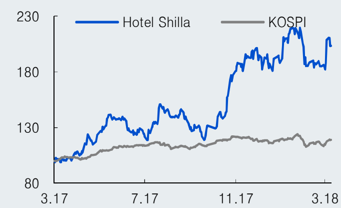
Hotel/Leisure

Company Report
March 15, 2018

(Maintain)	Buy
Target Price (12M, W)	▲ 140,000
Share Price (03/15/18, W)	89,900
Expected Return	56%

OP (18F, Wbn)	161
Consensus OP (18F, Wbn)	158
EPS Growth (18F, %)	244.2
Market EPS Growth (18F, %)	7.1
P/E (18F, x)	41.3
Market P/E (18F, x)	9.5
KOSPI	2,492.38
Market Cap (Wbn)	3,528
Shares Outstanding (mn)	40
Free Float (%)	77.3
Foreign Ownership (%)	29.7
Beta (12M)	1.39
52-Week Low	43,750
52-Week High	97,100

(%)	1M	6M	12M
Absolute	7.8	56.6	105.5
Relative	4.7	49.9	75.9



Mirae Asset Daewoo Co., Ltd.

[Cosmetics/Household Goods/Duty Free]

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Historical turning points: 2007, 2013, and now 2018

We believe 2018 will mark another turning point in the history of Hotel Shilla. In 2007, the company won its first Incheon International Airport (IIA) duty-free concession, setting the stage for the rapid expansion of its duty-free business. In 2013, the company overhauled its hotel business and advanced into the overseas duty-free market, securing new sources of growth.

In 2018, we believe Hotel Shilla's long-running efforts and strategies will finally bear fruit. As the dominant cosmetics/perfume retailer in Asia's major airport duty-free markets (Korea, Hong Kong, and Singapore), we think the company will begin to see a meaningful upgrade in its bargaining power over the medium and long term.

Because of the unusually large domestic duty-free market, the portfolios of major Korean duty-free operators tend to be much less regionally diversified than those of global competitors relative to their revenue size. This, in turn, has led to chronic cost inefficiencies at domestic companies. Hotel Shilla, however, has successfully ventured overseas since 2013, making new history within Asia's travel retail industry. Looking ahead, we expect Hotel Shilla to solidify its position as a major global retailer in terms of revenue as well as quality.

Domestic profit structure to begin normalizing in 2H18

Amid the recent news flows pointing to improving relations between Korea and China, expectations are rising for a potential resumption in inbound travel growth. However, considering recent monthly Chinese tourist arrivals (which have remained at the 2013 off-season level of around 300,000 through January) and the lead times for package tour products (a key component of Korea-China travel demand), we think demand will meaningfully pick up only after 1H18.

Once inbound travel demand returns to normal, we believe the biggest positive will be profit structure normalization. In the absence of normal travel demand, Chinese resellers, which generate higher spend per person, have picked up some of the slack. However, this has had a negative impact on margins due to the domestic business structure, under which higher purchases lead to higher discounts. Despite being Asia's second-largest operator, Hotel Shilla's domestic duty-free OP margin was just 3.0% in 2017, even lower than the 4.1% recorded in 2016, when the market sharply deteriorated due to policy-related factors. We expect underlying profits to improve in 2H18 as traffic returns to normal.

Airport duty-free business should reflect traffic; Raise TP to W140,000

In 2018, we forecast airports to account for 43% of Hotel Shilla's consolidated duty-free revenue. Notably, we believe 2018 will mark the first time overseas airport operations overtake domestic airport operations in terms of revenue. Airport duty-free shops play a critical role in capturing tourist traffic and enhancing bargaining power over brands. To reflect the value of this traffic, we have changed our valuation of the airport duty-free business to a P/S metric. We raise our SOTP-derived target price on Hotel Shilla by 27.3% to W140,000 (from W110,000). We continue to recommend the stock as our top pick in duty-free/cosmetics.

FY (Dec.)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	3,252	3,715	4,011	5,025	5,468	6,002
OP (Wbn)	77	79	73	161	223	238
OP margin (%)	2.4	2.1	1.8	3.2	4.1	4.0
NP (Wbn)	18	28	25	87	139	180
EPS (W)	462	696	632	2,176	3,463	4,504
ROE (%)	2.5	4.0	3.8	12.4	17.2	19.0
P/E (x)	167.3	69.2	134.3	41.3	26.0	20.0
P/B (x)	4.1	2.5	4.4	4.3	3.7	3.2
Dividend yield (%)	0.5	0.7	0.4	0.4	0.4	0.4

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

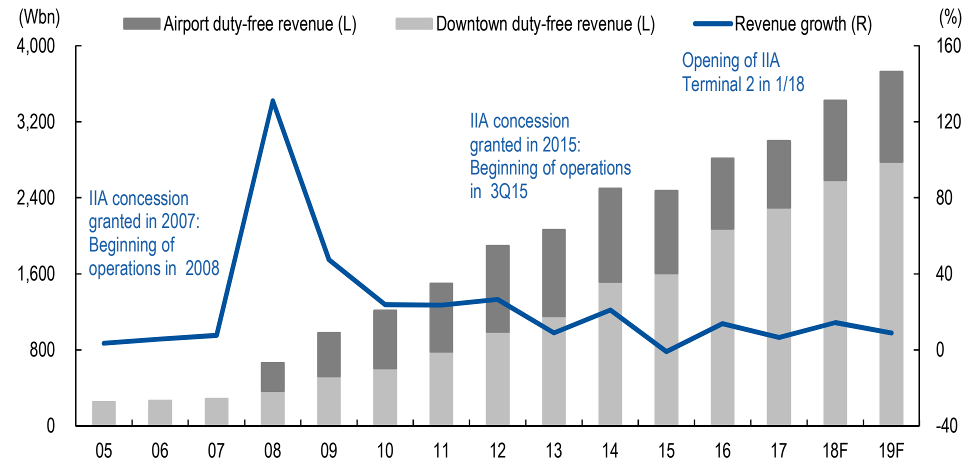
I. Investment points: Robust competitiveness

Historical turning points: 2007, 2013, and now 2018

We believe 2018 will mark another turning point in the history of Hotel Shilla. In 2007, the company won its first IIA duty-free shop concession, setting the stage for the rapid expansion of its duty-free business. (Market share increased from 11% in 2007 to 28% in 2011.) In 2013, the company overhauled its hotel business and advanced into the overseas duty-free market, securing new sources of growth. In 2018, we believe Hotel Shilla's long-running efforts and strategies will finally bear fruit. As the dominant cosmetics/perfume retailer in Asia's major airport duty-free markets (Korea, Hong Kong, and Singapore), we think the company will begin to see a meaningful upgrade in bargaining power over the medium and long term.

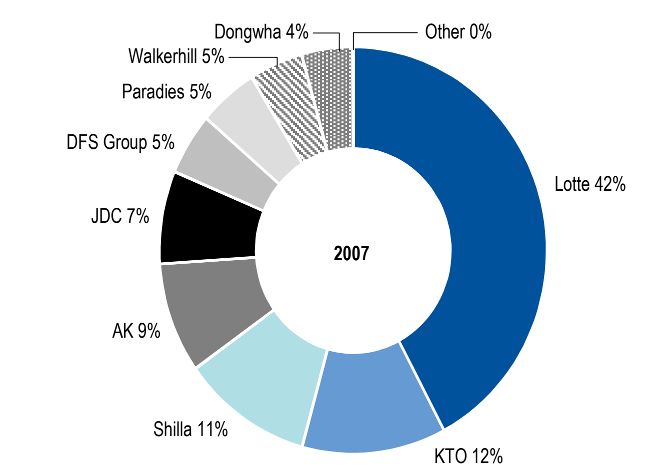
Because of the unusually large domestic duty-free market, the portfolios of major Korean duty-free operators tend to be much less geographically diversified than those of global competitors relative to their revenue size. This, in turn, has led to chronic cost inefficiencies at domestic companies. Hotel Shilla, however, has successfully ventured overseas since 2013, and we believe the company will further solidify its position as a major global retailer in terms of revenue as well as quality.

Figure 1. Korea's duty-free revenue and growth: Portfolio diversification after winning IIA duty-free concession in 2007



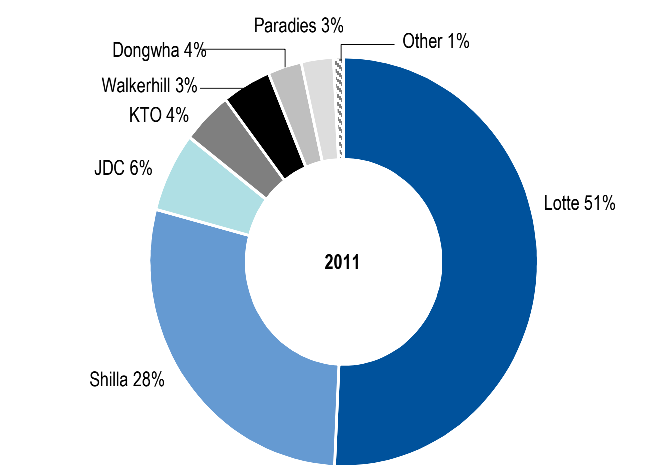
Source: Company data, Mirae Asset Daewoo Research

Figure 2. Domestic duty-free M/S breakdown in 2007



Source: KDFA, Mirae Asset Daewoo Research

Figure 3. Domestic duty-free M/S breakdown in 2011



Source: KDFA, Mirae Asset Daewoo Research

Easing external risks supportive of profit structure normalization

1) Chinese resellers making up for the absence of normal inbound demand

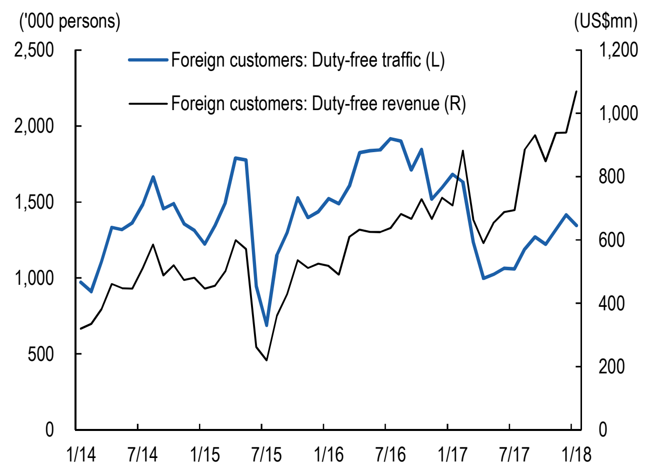
Despite heightened geopolitical headwinds since March 2017 and the resulting dissipation of Chinese inbound travel demand, the domestic duty-free market has managed to grow thanks to Chinese resellers (*daigou*). We believe this is because the domestic duty-free market has built a good reputation among Chinese shoppers for its differentiated merchandising and price competitiveness during the post-2013 rapid growth phase for Chinese travel.

Contrary to popular belief, Chinese resellers are a relatively new customer group that only began to emerge in late 2016.

In October 2016, the Chinese government began tightening regulations on cheap package tours. Among China's top three travel destinations (outside of Greater China), this took a direct toll on Korea and Thailand, while Japan was less affected due to its higher share of free independent travelers. (Chinese inbound tourist growth in October 2016 was +4.7% YoY for Korea, -16.2% YoY for Thailand, and +13.6% YoY for Japan.) In other words, Chinese inbound travel to Korea started softening even before the Chinese government introduced travel restrictions in the wake of the THAAD dispute in March 2017.

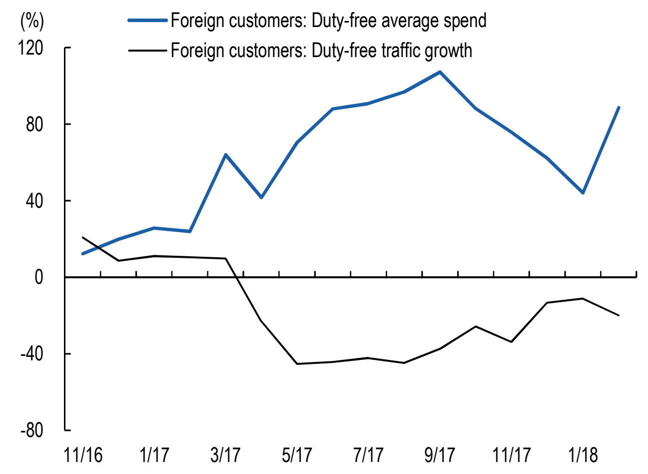
We believe Chinese tourists' experience with Korean duty-free shops during the initial rapid growth of inbound travel helped them recognize the appeal of the domestic duty-free channel relative to other regional retail channels. Demand for the Korean duty-free channel has been left unmet since late 2016 due to market regulations, increasing the need for resellers. This, in turn, has led to a sharp increase in purchases by Chinese resellers, as evidenced in the wide gap between foreign customer traffic (-26.8% YoY) and average spend per foreign customer (+69.0% YoY) of the domestic duty-free market in 2017.

Figure 4. Gap between foreign customer traffic and revenue has widened since 2017



Source: KDFA, Mirae Asset Daewoo Research

Figure 5. Average spend per foreign customer continues to grow



Source: KDFA, Mirae Asset Daewoo Research

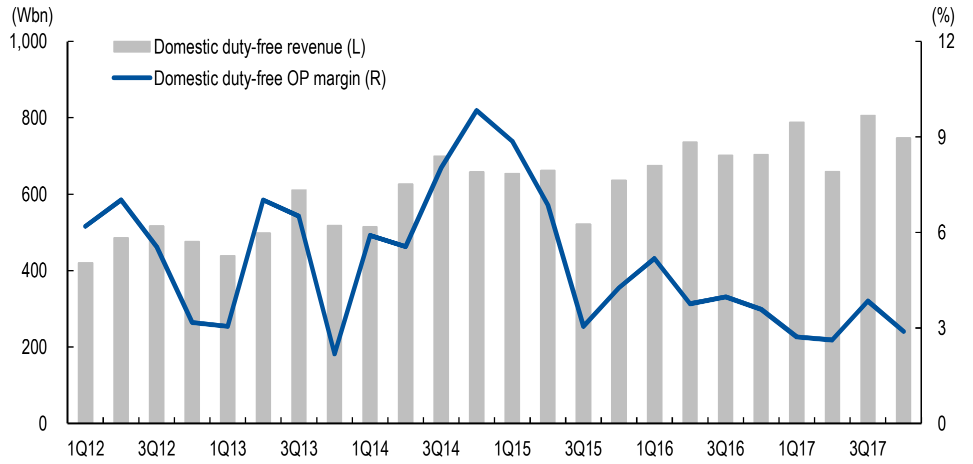
2) Current profit structure remains severely impaired

Because of its reliance on traveler traffic, the domestic duty-free industry is constantly exposed to volatility in its consumer base. In the longer run, sustaining and expanding tourist traffic will be more critical to the business than securing short-term margins. Thus, when customer traffic drops sharply, many duty-free operators respond by ramping up discounts and promotions to minimize potential customer losses.

In addition, sales to Chinese resellers, which have made up for revenue losses resulting from the decline in travel demand since March 2017, are far less profitable than sales to regular tourists due to their higher spend per person. Indeed, domestic duty-free operators generally offer higher discounts in line with shoppers' ticket sizes (unlike traditional retailers).

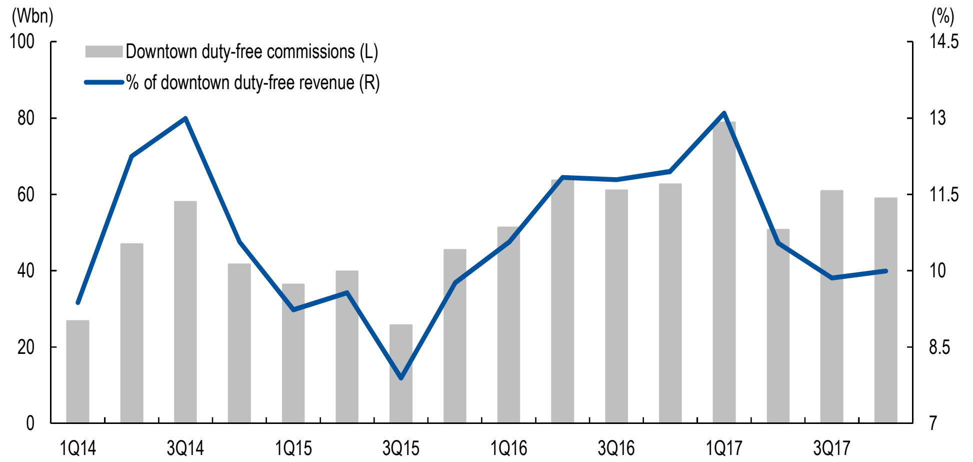
Thus, once inbound travel demand returns to normal, we believe the biggest positive for Hotel Shilla will be the normalization of its profit structure. Under the current margin structure, the company is making very thin profits and only by saving travel agent commissions (which became unduly high after 2015). In 2017, Hotel Shilla's domestic duty-free OP margin was just 3.0%, even lower than the 4.1% recorded in 2016, when the market sharply deteriorated due to policy-related factors. Such levels are inexplicably low for a company that is Asia's second-largest (and the world's fifth-largest) duty-free operator. As traffic returns to normal in 2H18, we expect underlying profits to improve.

Figure 6. Hotel Shilla's domestic duty-free revenue and OP margin



Source: Company data, Mirae Asset Daewoo Research

Figure 7. Hotel Shilla's downtown duty-free commissions and % of downtown duty-free revenue



Source: Company data, Mirae Asset Daewoo Research

Presences in Asia's three major airports → Access to 200mn travelers

We believe Hotel Shilla is making new history within Asia's travel retail industry. While Korea and several other Asian countries have unusually well-established downtown duty-free shop models (compared to the lack of inbound travel infrastructure), airport operations are what form the foundation of the global duty-free industry.

Duty-free operators in Europe and the US enjoy a structural advantage because of the abundance of brands in those regions. Indeed, the global duty-free market has been dominated by developed market companies with superior geographical reach and brand sourcing capabilities. And in a largely stagnant market, duty-free operators moving into new regions have to take share from existing players.

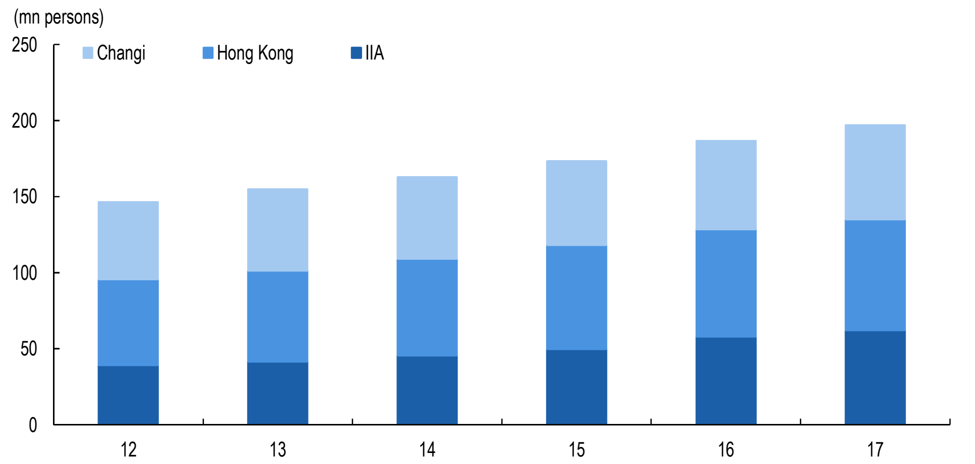
Because the growth of Korean duty-free companies was primarily driven by domestic demand up until 2012, their geographical/customer portfolios remained under-diversified relative to their revenue size. And venturing into overseas markets was considered a challenging task for many domestic duty-free operators. However, as Chinese travelers became more prominent in the global market, Korean duty-free operators began to gain attention for their unique omni-channel approach and merchandising capabilities (which were better suited to Asian consumers). And since 2013, the active participation of the top two domestic operators in overseas bids has shed light on their potential in the global market.

Hotel Shilla started to make meaningful progress overseas after winning the bid for cosmetics/perfume concessions at Singapore's Changi Airport (which began operations in April 2013). In the four years since then, it has gone on to establish a solid track record and reputation overseas, which we believe played a critical part in the company winning duty-free concessions in Hong Kong International Airport (cosmetics/perfume) and IIA Terminal 2 bids last year.

All in all, Hotel Shilla has made significant advances in the global market, gaining access to 200mn travelers in the region through its presence in Asia's three major international airports.

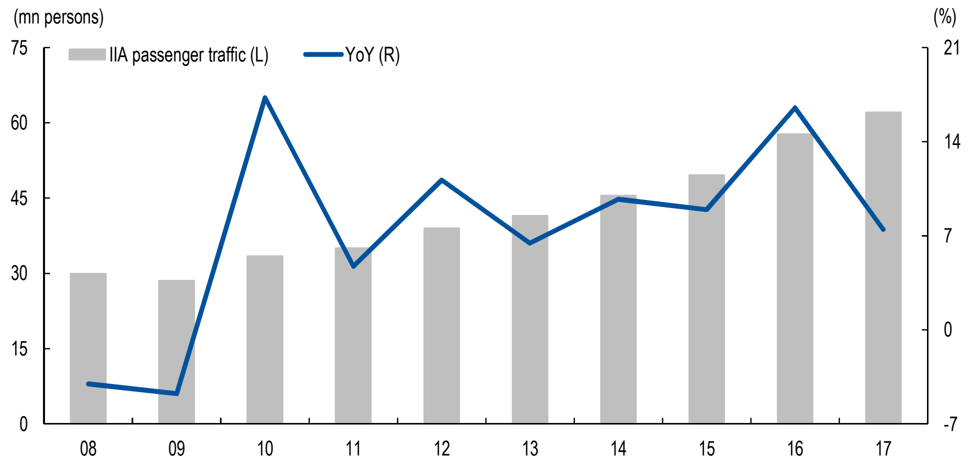
While the profit contribution of international airports is minimal due to their high rental costs, we believe continued revenue growth potential should take precedence over short-term profits, given the importance of sourcing and merchandising capabilities in the duty-free business. We think purchasing volume expansion and geographic diversification will ultimately enhance the company's bargaining power over brands, leading to fundamental cost efficiencies. In the long run, we believe the benefits of cost improvements will far outweigh the increase in SG&A expenses.

Figure 8. Passenger traffic of IIA, Changi Airport, and Hong Kong International Airport



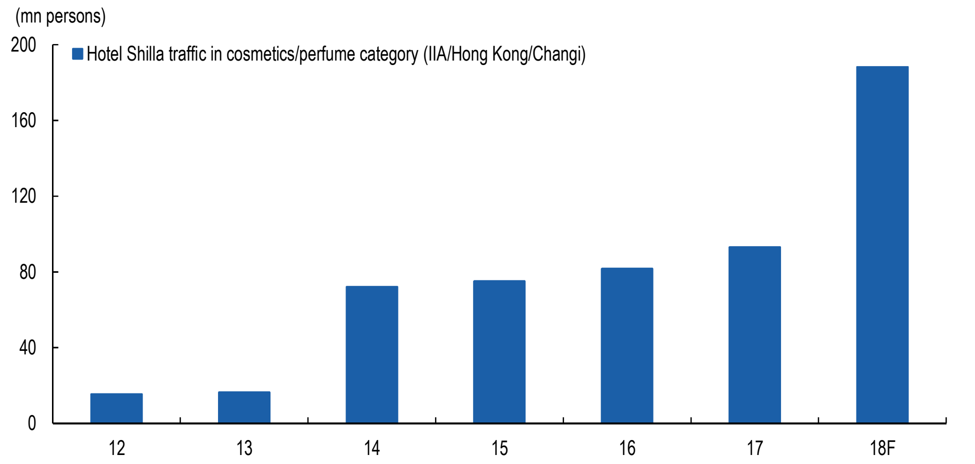
Source: IIAC, HKIA, CAG, Mirae Asset Daewoo Research

Figure 9. IIA passenger traffic and growth



Source: IIAC, Mirae Asset Daewoo Research

Figure 10. Hotel Shilla's traffic in cosmetics/perfume category (IIA, Changi Airport, and Hong Kong International Airport)



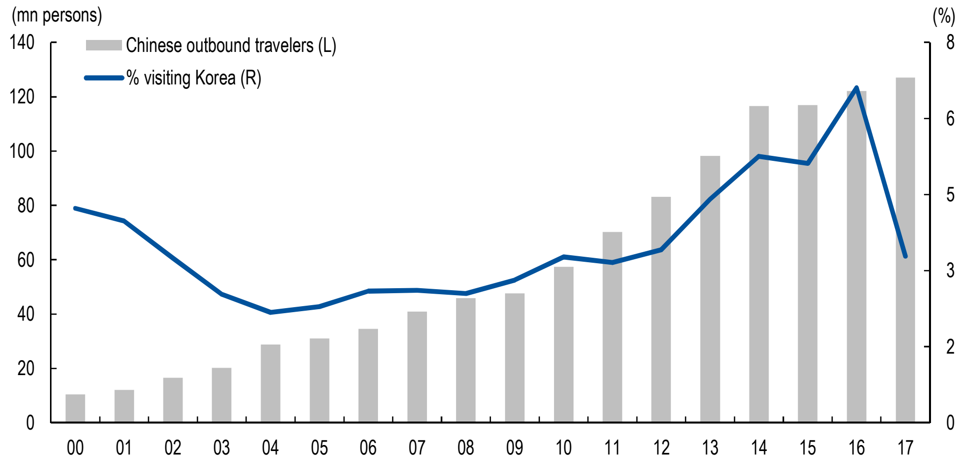
Source: IIAC, HKIA, CAG, Mirae Asset Daewoo Research

Table 1. Inbound/outbound traffic ('000 persons, %)

	10	11	12	13	14	15	16	17	18F	19F
Outbound traffic	12,488	12,694	13,737	14,846	16,108	19,310	22,383	26,496	29,900	32,308
(%, YoY)	31.5	1.6	8.2	8.1	8.5	19.9	15.9	18.4	12.8	8.1
Inbound traffic	8,798	9,795	11,140	12,176	14,202	13,232	17,242	13,336	16,585	19,009
(%, YoY)	12.5	11.3	13.7	9.3	16.6	-6.8	30.3	-22.7	24.4	14.6
Japan	3,023	3,289	3,519	2,748	2,280	1,838	2,298	2,311	2,473	2,597
(%, YoY)	-1.0	8.8	7.0	-21.9	-17.0	-19.4	25.0	0.6	7.0	5.0
China	1,875	2,220	2,837	4,327	6,127	5,984	8,068	4,168	6,673	8,337
(%, YoY)	39.7	18.4	27.8	52.5	41.6	-2.3	34.8	-48.3	60.1	24.9
Americas	814	827	876	856	974	974	1,083	1,117	1,173	1,232
(%, YoY)	8.3	1.7	5.9	-2.3	13.8	0.0	11.2	3.1	5.0	5.0
Europe	646	681	717	768	849	806	943	936	983	1,032
(%, YoY)	8.0	5.5	5.3	7.1	10.5	-5.0	16.9	-0.7	5.0	5.0
Other	2,440	2,777	3,191	3,477	3,972	3,629	4,850	4,803	5,283	5,811
(%, YoY)	17.7	13.8	14.9	9.0	14.2	-8.6	33.6	-1.0	10.0	10.0
[% by country]										
Japan	34.4	33.6	31.6	22.6	16.1	13.9	13.3	17.3	14.9	13.7
China	21.3	22.7	25.5	35.5	43.1	45.2	46.8	31.3	40.2	43.9
Americas	9.3	8.4	7.9	7.0	6.9	7.4	6.3	8.4	7.1	6.5
Europe	7.3	7.0	6.4	6.3	6.0	6.1	5.5	7.0	5.9	5.4
Other	27.7	28.4	28.6	28.6	28.0	27.4	28.1	36.0	31.9	30.6

Source: KTO, Mirae Asset Daewoo Research

Figure 11. Chinese outbound travelers and % visiting Korea



Source: CNTA, Mirae Asset Daewoo Research

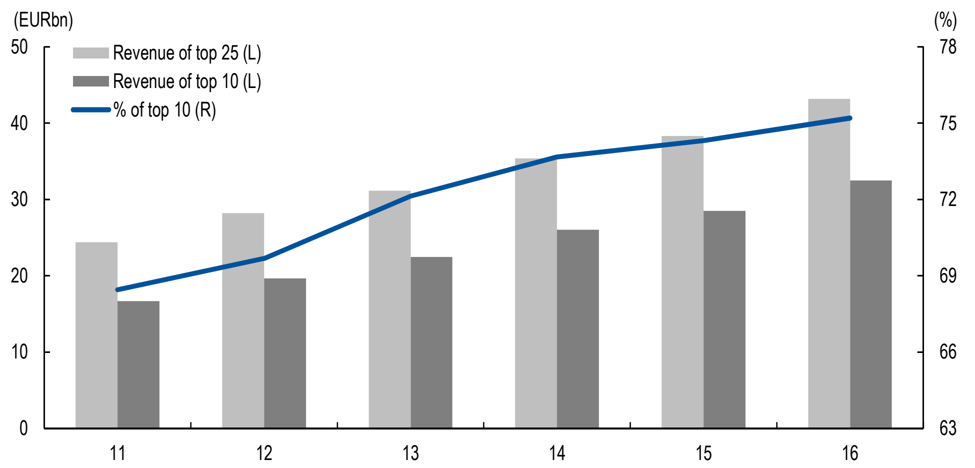
II. Global duty-free market analysis

Market consolidation toward top-tiers accelerating

In duty-free retailing (direct sourcing), top-tiers have solidified their leadership as the market has matured. In the global market, where growth is limited due to stagnant demand in developed countries, the industry is evolving into an oligopoly at a rapid pace amid an M&A wave.

Dufry (DUFN SW/CP: CHF129.9), which had ranked the third in the global duty-free retailing market in 2011, took the top spot by acquiring Nuance (seventh place) in 2014, and World Duty Free (fifth) in 2015. The previous top player, LVMH-controlled DFS Group fell to third in 2016 due to a slowdown in organic growth. Meanwhile, the world's top 10 duty free retailers' contribution to the combined revenue of the top 25 players rose to 75.2% in 2016, from 68.5% in 2011, suggesting that industry consolidation is accelerating toward leading players.

Figure 12. Top 10 players' contribution to combined revenue of top 25 players



Source: The Moodie Davitt Report, Mirae Asset Daewoo Research

Asian travel retailers performing well in the global market

We note other changes in the top 10 rankings. While Dufry claimed the top spot aided by M&A-led growth, Lotte Duty Free and Hotel Shilla moved up to second and fifth, respectively, backed by organic growth.

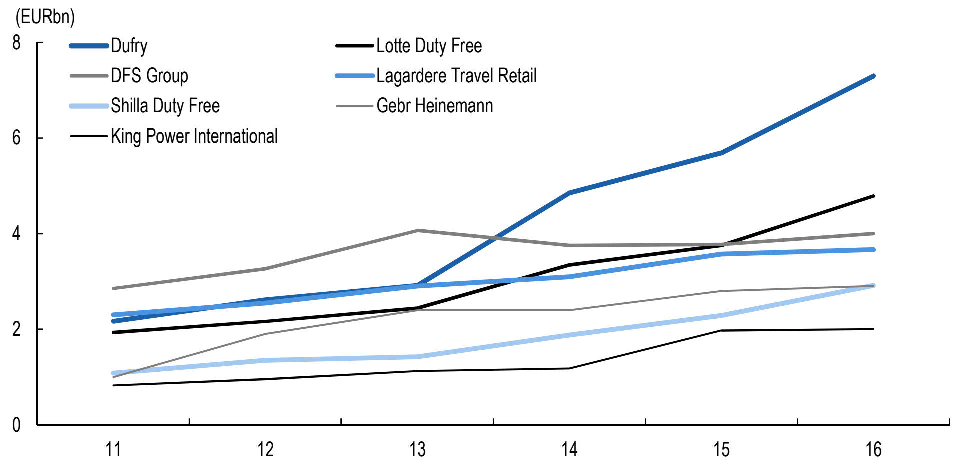
The strong performances of other Asian travel retailers also stand out. For example, King Power International, Thailand's leading travel retail firm climbed from 12th in 2011 to seventh in 2016. During the same period, Ever Rich (Taiwan) rose from 10th to ninth, while Sunrise (China) jumped from 15th to 10th. We attribute the rises of Asian players despite the global market slump to the full-fledged increase in outbound travel demand in China since 2012. Generally speaking, around 80% of outbound travel demand is concentrated around nearby/neighboring countries. Notably, in China, the proportion of outbound travelers in the total population remains below 10% (estimated at 9.2% in 2017), hinting at ample growth potential in Asia over the longer term.

Table 2. Global top 10 in 2016 vs. 2011 (EURmn, %)

	Global top 10 in 2011			Global top 10 in 2016		Five-year cumulative growth
1	DFS	2,850	1	Dufry	7,298	237
2	LS Travel Retail	2,300	2	Lotte Duty Free	4,783	148
3	Dufry	2,168	3	DFS Group	4,000	40
4	Lotte Duty Free	1,930	4	Lagardere Travel Retail	3,662	101
5	Autogrill Travel Retail	1,821	**5**	**Shilla Duty Free**	**2,910**	**169**
6	Nuance	1,535	6	Gebr Heinemann	2,900	190
7	Dubai Duty Free	1,127	7	King Power International	2,003	142
8	**Shilla Duty Free**	**1,080**	8	Dubai Duty Free	1,758	56
9	Gebr Heinemann	1,000	9	Ever Rich	1,643	84
10	Ever Rich	891	10	Sunrise	1,520	195

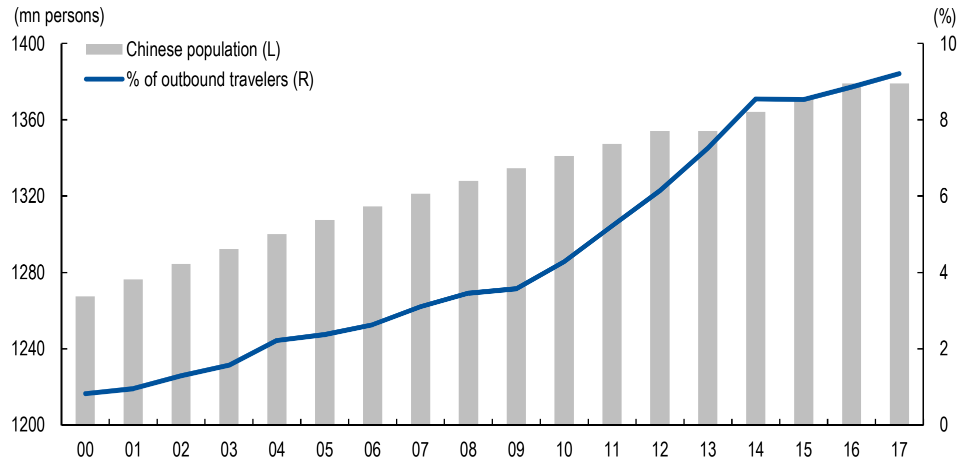
Notes: Autogrill merged with World Duty Free in 2011; Lagardere Travel Retail acquired LS Travel Retail and Gerzon in 2013, and The Paradies Shops in 2015
Source: The Moodie Davitt Report, Mirae Asset Daewoo Research

Figure 13. Top 10 duty-free operators' revenue in 2016



Source: The Moodie Davitt Report, Mirae Asset Daewoo Research

Figure 14. Chinese population and % of outbound travelers in total population



Source: CNTA, Mirae Asset Daewoo Research

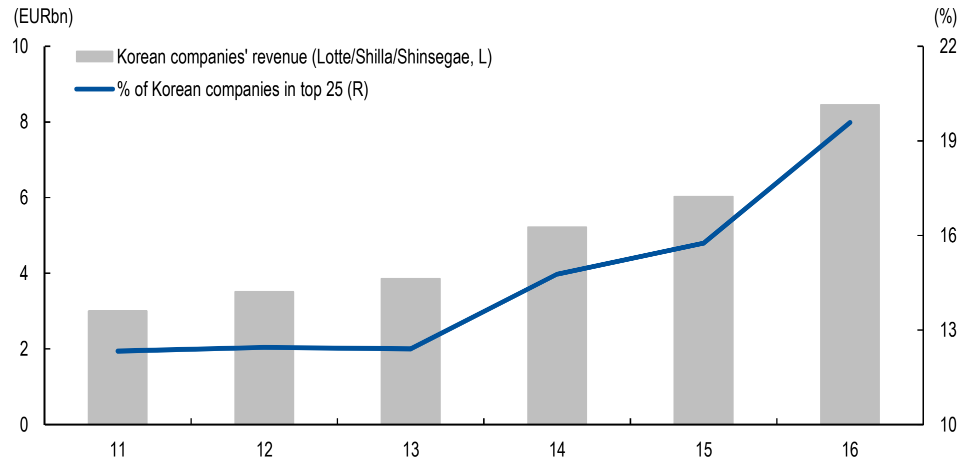
Korean duty-free operators continue to fare well

Major Korean duty-free operators emerged as global players, thanks to their outstanding competiveness, even before the Korean inbound travel market started to expand full swing. Since 2013, companies with proven track records have delivered rapid growth, fueled by the growth of Chinese inbound travel demand.

In particular, Korea's leading players, Hotel Lotte and Hotel Shilla, have continued to post top-line growth despite the impact of the MERS outbreak in 2015, proving their superior ability to defend against external shocks. Korean duty-free operators have attracted keen attention, due to: 1) their long track records of buffering against external risks; and 2) excellent product sourcing and marketing capabilities optimized for core customers.

In 2016, Shinsegae (004170 KS/Buy/TP: W370,000/CP: W329,000) entered the global top 25 duty-free operator list, thanks to the acquisition of a downtown (Seoul) duty-free license, ranking 15th. The top three domestic players' contribution to the top 25 operators' combined revenue climbed from 12.3% in 2011 to 19.6% in 2016. Given Korean players' strengthened competitiveness, their growth momentum will likely pick up in the event of a resumption in Chinese inbound travel growth.

Figure 15. Top three Korean players' contribution to combined revenue of top 25 players



Source: The Moodie Davitt Report, Mirae Asset Daewoo Research

II. Valuation

Raise TP to W140,000 following revaluation of airport duty-free business

We believe the duty-free business can be compared to online retailing. In both areas, the customer base is highly volatile, and merchandising plays a key role in determining a company's competitive strength. That said, Korea's downtown duty-free shops are an exception, as they are based on a unique business model that relies on attracting customer traffic artificially.

For airport concessions (a purer form of the duty-free business model), it is difficult to become profitable during the initial stages of operation. Once sufficient traffic is secured, however, profit margins can gradually improve over the medium and long term, supported by increasing scale effects and cost efficiency outpacing SG&A expenses. When valuing Hotel Shilla's airport duty-free business using a P/S valuation, which is commonly used to value online retailers making losses during initial operation, we arrived at a corporate value of roughly W2tr based on a minimum P/S ratio of 1x.

We think the long-term contribution of the airport duty-free business is a critical component that must be reflected in the company's valuation. Based on this new perspective, we have valued Hotel Shilla's downtown business and airport business separately, applying 23x P/E (unchanged) to our 2018F net profit for the former and 1x P/S for the latter.

Reflecting this change, we raise our target price on Hotel Shilla by 27% to W140,000 (from W110,000). We maintain our Buy rating and continue to recommend the stock as our top pick in duty-free/cosmetics.

Table 3. SOTP valuation (Wbn, %)

	Valuation	Fair multiple	Fair value	Notes
1. Duty-free				
Downtown	P/E	23.0	3,137	20% discount to peak multiple
Airport	P/S	1.0	1,955	Based on 2018F sales of three largest airport operations
2. Hotel/leisure	P/E	21.6	396	20% discount to global peer multiple
Total value			5,488	
Total shares outstanding			39,248	
Value per share			140,000	
Current share price (3/15/17)			89,900	
Upside (%)			56	

Source: Mirae Asset Daewoo Research estimates

Global peer valuation

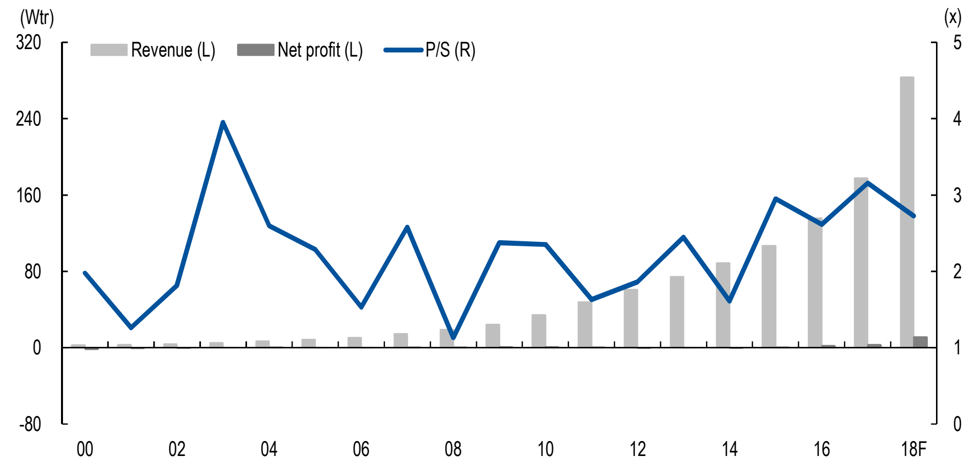
Table 4. Global peer valuation comparison

(Wbn, %, x)

	Revenue			Operating profit			Net profit		
	17	18F	19F	17	18F	19F	17	18F	19F
Hotel Shilla	4,011	4,999	5,612	73	167	238	25	104	158
Dufry	9,378	9,872	10,376	508	587	688	96	235	334
Amazon	201,107	248,367	301,769	4,643	6,653	11,666	3,429	4,378	8,120
Best Buy	47,218	44,235	45,591	2,065	2,013	2,117	1,120	1,519	1,558
Rakuten	9,523	10,679	11,932	1,506	1,296	1,449	1,115	767	884
JD.com	60,678	79,076	99,274	-140	444	1,360	-25	559	1,277
Vipshop	12,210	15,336	19,167	451	690	912	326	449	650
Zalando	5,731	7,225	8,769	239	331	439	132	193	256
MercadoLibre	1,581	2,205	3,142	64	124	242	16	114	199
	P/E			**P/S**			**ROE**		
	17	**18F**	**19F**	**17**	**18F**	**19F**	**17**	**18F**	**19F**
Hotel Shilla	127.3	33.9	22.2	0.8	0.7	0.6	3.7	14.2	18.5
Dufry	17.7	15.7	13.8	0.9	0.9	0.8	13.9	6.5	8.4
Amazon	256.6	94.8	63.4	3.2	3.3	2.7	12.9	13.2	17.4
Best Buy	16.1	14.5	13.5	0.5	0.5	0.5	24.0	40.1	51.9
Rakuten	12.9	16.4	14.2	1.5	1.2	1.1	16.2	10.4	10.9
JD.com	0.0	56.7	37.3	1.1	0.9	0.7	-0.4	6.2	11.9
Vipshop	23.8	21.0	15.9	0.6	0.8	0.6	19.5	20.3	21.9
Zalando	105.0	76.7	58.8	2.4	2.1	1.7	7.0	9.3	11.4
MercadoLibre	197.1	179.0	105.6	9.9	8.7	6.1	3.7	19.5	28.8

Source: Bloomberg consensus

Figure 16. Annual earnings and P/S multiple for Amazon (AMZN US/CP: US$1,591)



Source: Bloomberg, Mirae Asset Daewoo Research

Hotel Shilla (008770 KS/Buy/TP: W140,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Revenue	**4,011**	**5,025**	**5,468**	**6,002**
Cost of Sales	**2,363**	**2,706**	**2,875**	**3,172**
Gross Profit	**1,648**	**2,319**	**2,593**	**2,830**
SG&A Expenses	**1,576**	**2,159**	**2,371**	**2,592**
Operating Profit (Adj)	**73**	**161**	**223**	**238**
Operating Profit	**73**	**161**	**223**	**238**
Non-Operating Profit	**-28**	**-24**	**-12**	**25**
Net Financial Income	-15	-17	-17	-19
Net Gain from Inv in Associates	0	21	35	36
Pretax Profit	45	137	211	263
Income Tax	19	50	72	83
Profit from Continuing Operations	25	87	139	180
Profit from Discontinued Operations	0	0	0	0
Net Profit	25	87	139	180
Controlling Interests	25	87	139	180
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	**19**	**87**	**139**	**180**
Controlling Interests	19	87	139	181
Non-Controlling Interests	0	0	-1	-1
EBITDA	145	231	298	318
FCF (Free Cash Flow)	142	78	78	133
EBITDA Margin (%)	3.6	4.6	5.4	5.3
Operating Profit Margin (%)	1.8	3.2	4.1	4.0
Net Profit Margin (%)	0.6	1.7	2.5	3.0

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Current Assets	**1,198**	**1,385**	**1,615**	**1,856**
Cash and Cash Equivalents	474	489	523	621
AR & Other Receivables	160	207	256	283
Inventories	500	584	711	817
Other Current Assets	64	105	125	135
Non-Current Assets	**1,051**	**1,142**	**1,222**	**1,273**
Investments in Associates	33	40	46	49
Property, Plant and Equipment	693	716	740	756
Intangible Assets	44	51	56	60
Total Assets	**2,250**	**2,527**	**2,838**	**3,130**
Current Liabilities	**910**	**1,059**	**1,190**	**1,263**
AP & Other Payables	322	383	439	472
Short-Term Financial Liabilities	222	232	242	242
Other Current Liabilities	366	444	509	549
Non-Current Liabilities	**672**	**727**	**781**	**833**
Long-Term Financial Liabilities	649	699	749	799
Other Non-Current Liabilities	23	28	32	34
Total Liabilities	**1,582**	**1,785**	**1,970**	**2,096**
Controlling Interests	**667**	**741**	**866**	**1,033**
Capital Stock	200	200	200	200
Capital Surplus	197	197	197	197
Retained Earnings	382	455	581	747
Non-Controlling Interests	**1**	**1**	**1**	**1**
Stockholders' Equity	**668**	**742**	**867**	**1,034**

Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Cash Flows from Op Activities	**207**	**158**	**173**	**223**
Net Profit	25	87	139	180
Non-Cash Income and Expense	130	138	166	182
Depreciation	58	57	61	64
Amortization	13	13	15	16
Others	59	68	90	102
Chg in Working Capital	66	-28	-70	-67
Chg in AR & Other Receivables	40	-26	-33	-18
Chg in Inventories	-35	-84	-127	-106
Chg in AP & Other Payables	70	57	48	29
Income Tax Paid	-21	-50	-72	-83
Cash Flows from Inv Activities	**-162**	**-155**	**-151**	**-128**
Chg in PP&E	-60	-80	-85	-80
Chg in Intangible Assets	1	-20	-20	-20
Chg in Financial Assets	-88	-55	-46	-28
Others	-15	0	0	0
Cash Flows from Fin Activities	**85**	**19**	**18**	**6**
Chg in Financial Liabilities	119	60	60	50
Chg in Equity	0	0	0	0
Dividends Paid	-13	-13	-13	-13
Others	-21	-28	-29	-31
Increase (Decrease) in Cash	**128**	**15**	**34**	**98**
Beginning Balance	347	474	489	523
Ending Balance	474	489	523	621

Forecasts/Valuations (Summarized)

	12/17	12/18F	12/19F	12/20F
P/E (x)	134.3	41.3	26.0	20.0
P/CF (x)	21.8	16.0	11.8	9.9
P/B (x)	4.4	4.3	3.7	3.2
EV/EBITDA (x)	26.0	17.3	13.5	12.5
EPS (W)	632	2,176	3,463	4,504
CFPS (W)	3,889	5,626	7,602	9,059
BPS (W)	19,299	21,142	24,274	28,446
DPS (W)	350	350	350	350
Payout ratio (%)	51.4	14.9	9.4	7.2
Dividend Yield (%)	0.4	0.4	0.4	0.4
Revenue Growth (%)	8.0	25.3	8.8	9.8
EBITDA Growth (%)	-5.2	59.3	29.0	6.7
Operating Profit Growth (%)	-7.6	120.5	38.5	6.7
EPS Growth (%)	-9.2	244.3	59.1	30.1
Accounts Receivable Turnover (x)	41.1	55.9	45.9	41.6
Inventory Turnover (x)	8.3	9.3	8.4	7.9
Accounts Payable Turnover (x)	9.9	9.0	8.1	8.1
ROA (%)	1.2	3.6	5.2	6.0
ROE (%)	3.8	12.4	17.2	19.0
ROIC (%)	4.9	12.4	16.0	16.1
Liability to Equity Ratio (%)	236.7	240.7	227.2	202.7
Current Ratio (%)	131.7	130.9	135.8	147.0
Net Debt to Equity Ratio (%)	58.7	58.8	53.2	40.0
Interest Coverage Ratio (x)	3.3	5.9	7.8	7.9

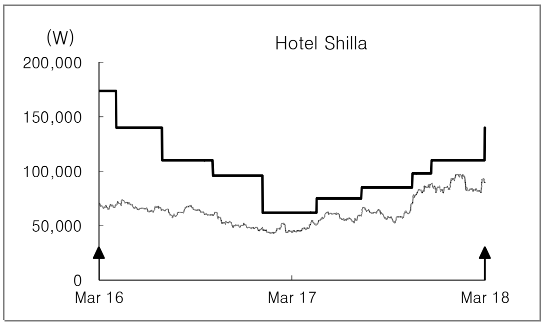
Source: Company data, Mirae Asset Daewoo Research estimates

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hotel Shilla (008770)	03/15/2018	Buy	140,000
	12/04/2017	Buy	110,000
	10/29/2017	Buy	98,000
	07/25/2017	Buy	85,000
	05/01/2017	Buy	75,000
	01/19/2017	Buy	62,000
	10/17/2016	Buy	96,000
	07/13/2016	Buy	110,000
	04/17/2016	Buy	140,000
	11/30/2015	Buy	174,000



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)

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