

CJ Logistics

(000120 KS/Buy)

CJ Logistics buys US-based DSC Logistics

- CJ Logistics has decided to acquire a 90% stake in US-based DSC Logistics for W231.4bn
- The acquisition price (2017F EV/EBITDA of 12x and P/B of 2.9x) looks appropriate, given the strong growth potential and profitability of the to-be-acquired firm
- The deal will allow the company to handle multinational firms' orders

CJ Logistics to purchase 90% stake in DSC Logistics for W231.4bn

On June 8th, CJ Logistics announced its decision to purchase a 90% stake in DSC Logistics (through CJ Logistics USA); the decision on whether to acquire the remaining 10% stake will be made later on, depending on the earnings of the to-be-acquired firm.

The per-share acquisition price corresponds to a 2017F EV/EBITDA of 12x, P/E of 12.4x (adjusted P/E of nearly 20x) and P/B of 2.9x. We view the acquisition price as reasonable, considering DSC Logistics' strong top-line growth (2015-17 CAGR of 15%) and ROE (roughly 15%).

CJ Logistics has yet to reveal detailed financing plans regarding the acquisition, but has guaranteed the full and due performance of the acquisition contract.

M&A deal allows for expansion into developed markets

Established as a Chicago-based logistics firm in 1960, DSC Logistics specializes in the food/consumer goods logistics business, based on warehousing and trucking. As of 2017, the asset-light company held W194.5bn in assets and W104.4bn in liabilities. Of note, the company posted revenue of W578.4bn net profit of W20.8bn (W11bn, excluding one-off gains) last year, with its ROE improving to around 15% (excluding one-offs) from 10% in 2015.

The acquisition of DSC Logistics is CJ Logistics' first developed-market M&A deal since the company began a full-fledged pursuit of M&As five years ago. This M&A deal will likely allow the company to handle multinational firms' orders and secure US logistics networks. We believe the company will be able to create synergies from the deal, given its ample customer base and superior smart logistics capability.

Maintain CJ Logistics as top pick in the transport sector

We maintain CJ Logistics as our top pick in the transport sector. Our investment points are as follows: 1) Expansion into developed markets for M&As will likely increase the number of networks, boosting growth potential; 2) the company's domestic parcel delivery market share is likely to increase on the planned operation of the Mega Hub Terminal in August; and 3) margins should improve on long-term rate hikes.

FY (12)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	5,056	6,082	7,110	8,802	9,974	10,947
OP (Wbn)	187	228	236	233	287	309
OP margin (%)	3.7	3.7	3.3	2.6	2.9	2.8
NP (Wbn)	46	56	31	109	122	119
EPS (W)	2,014	2,446	1,380	4,766	5,367	5,209
ROE (%)	2.0	2.4	1.3	4.5	4.8	4.5
P/E (x)	94.8	73.2	101.4	32.3	28.7	29.6
P/B (x)	1.5	1.4	1.1	1.2	1.1	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

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Table 1. DSC Logistics overview

Name	DSC Logistics, Inc.
Founded	August, 1960
Employees	3,420 (as of April, 2018)
NW/Infra	About 50 warehouses
Clients	Food and CPG companies in the US
Business	Warehouse management, transportation, etc.

Source: CJ Logistics, Mirae Asset Daewoo Research

Table 2. DSC Logistics history

1960	Founded (Dry Storage Corp., Chicago IL – Founder James A. McIlrath)
1983	Acquired a trucking company and expanded biz – Founded Remlo Transportation
1987	Expanded biz area (Acquired Gulf Atlantic) – Expanded to Dallas, Atlanta, Charlotte, etc.
1997	Named Ann Drake as Chief Executive Officer – Integrated 22 sites and founded DSC Logistics
2010	Recognized as 'Lead Partner' by MNC clients

Source: CJ Logistics, Mirae Asset Daewoo Research

Table 3. DSC Logistics income statement

(Wbn, %)

	FY15	FY16	FY17
Revenue	434	522	578
Cost of sales	396	475	531
Gross profit	38	47	47
GP margin (%)	8.7	9.0	8.1
Operating profit	8	12	11
OP margin (%)	1.8	2.3	1.9
Profit before tax	8	12	19
EBT margin (%)	1.8	2.3	3.3
Net profit	7	11	21
Net margin (%)	1.7	2.2	3.6
EBITDA	15	22	21
% of sales	3.5	4.2	3.7

Source: CJ Logistics, Mirae Asset Daewoo Research

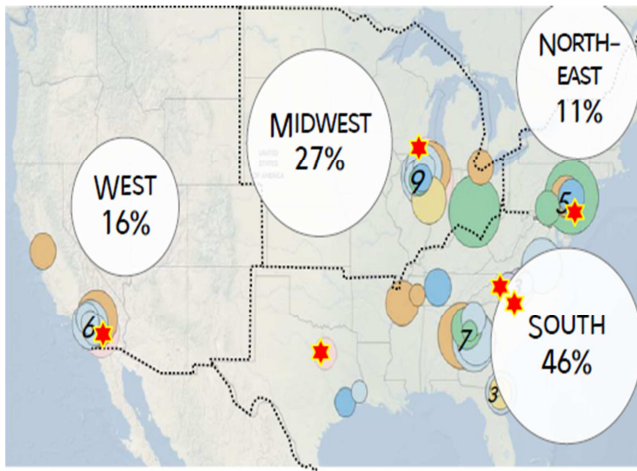
Table 4. DSC Logistics balance sheet

(Wbn, %)

	FY15	FY16	FY17
Current asset	83	111	145
Non-current asset	69	71	50
Total asset	152	182	195
Current liabilities	49	69	74
Non-current liabilities	31	37	31
Total liabilities	79	106	104
Total equity	73	76	90
Total liabilities and equity	152	182	195
Liabilities to equity ratio (%)	109	138	116
Current ratio (%)	171	162	197

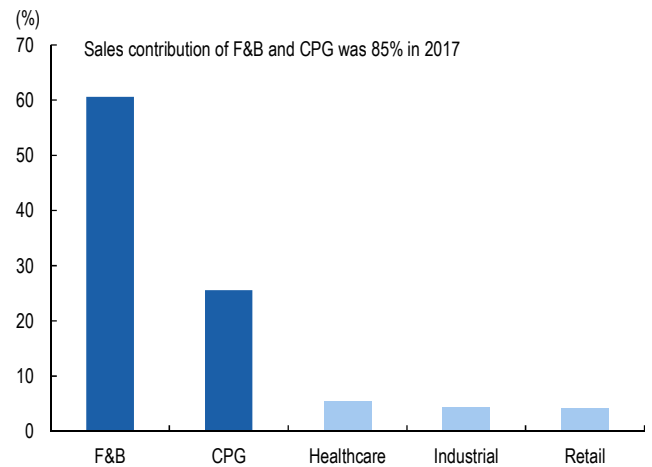
Source: CJ Logistics, Mirae Asset Daewoo Research

Figure 1. DSC Logistics' network



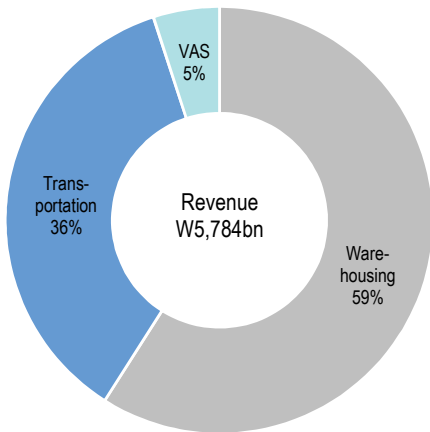
Source: CJ Logistics, Mirae Asset Daewoo Research

Figure 2. DSC Logistics' 2017 sales contribution by industry



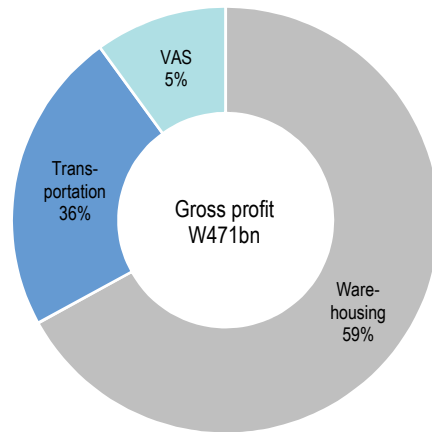
Source: CJ Logistics, Mirae Asset Daewoo Research

Figure 3. 2017 DSC Logistics' sales contribution by biz



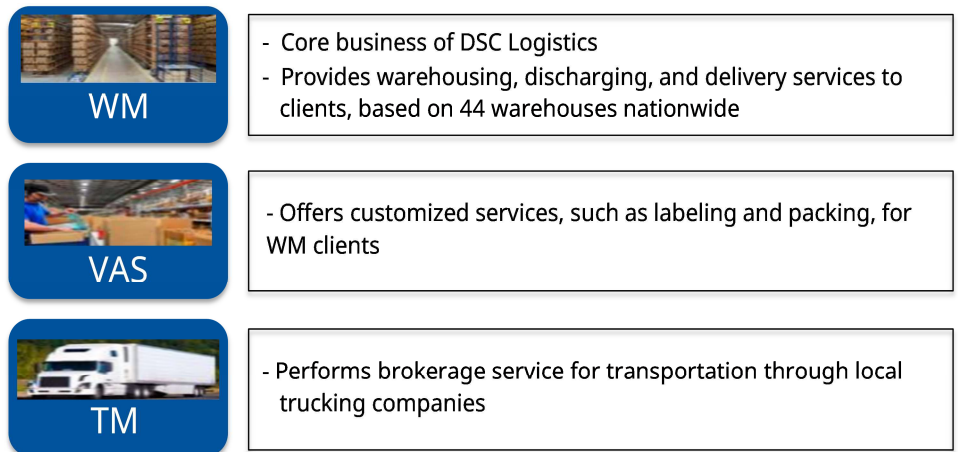
Source: CJ Logistics, Mirae Asset Daewoo Research

Figure 4. 2017 DSC Logistics' gross profit contribution by biz



Source: CJ Logistics, Mirae Asset Daewoo Research

Figure 5. DSC Logistics' business portfolio



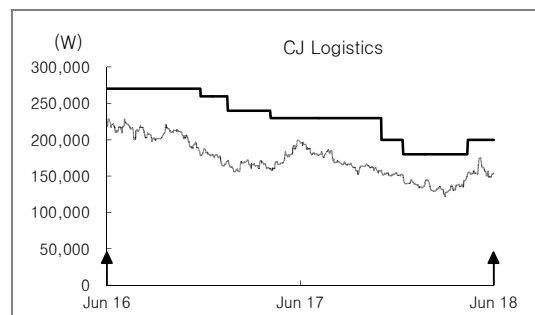
Source: CJ Logistics, Mirae Asset Daewoo Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
CJ Logistics (000120)	04/20/2018	Buy	200,000
	12/19/2017	Buy	180,000
	11/08/2017	Buy	200,000
	04/13/2017	Buy	230,000
	01/22/2017	Buy	240,000
	12/02/2016	Buy	260,000
	02/05/2016	Buy	270,000



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.

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* 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	74.13%	15.92%	9.95%	0.00%
Investment Banking Services	75.00%	11.11%	13.89%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2018)

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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)
