

(Maintain) **Buy**

Target Price (12M, W) **350,000**

Share Price (03/08/19, W) 279,000

Expected Return 25%

OP (19F, Wbn) 102  
Consensus OP (19F, Wbn) 106

EPS Growth (19F, %) 12.0  
Market EPS Growth (19F, %) -18.7  
P/E (19F, x) 18.0  
Market P/E (19F, x) 10.5  
KOSPI 2,137.44

Market Cap (Wbn) 1,697  
Shares Outstanding (mn) 6  
Free Float (%) 49.6  
Foreign Ownership (%) 20.1  
Beta (12M) 0.38  
52-Week Low 214,000  
52-Week High 356,000

(%)	1M	6M	12M
Absolute	-0.9	13.4	-9.7
Relative	0.9	21.1	2.8



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# Nongshim

(004370 KS)

## Reasons for optimism in 2019

### Three investment points for 2019

**1) Growth overseas (US, China, Japan, Australia, and Vietnam):** In 2018, Nongshim's overseas revenue and operating profit grew 10.4% and 44.8% YoY, respectively. In 2019, we forecast overseas revenue and operating profit to expand 11.9% and 23% YoY, respectively. In the US, we expect revenue growth of 11.2%, fueled by geographical expansion, advance into traditional trade channels, and broader product offerings. In China, we look for revenue growth of 9.7%, supported by forays into the western region and online channel expansion. Meanwhile, Nongshim is working on restoring its distribution channels in Japan, while increasing buyers in Australia. The company has also ventured into Vietnam, the world's fifth largest instant noodle market. The company built a local sales network in 2018 and is expected to begin generating revenue in the country in 2019.

**2) Pioneering the non-fried instant noodle market:** In February, Nongshim rolled out a non-fried version of Shin Ramyun (retail price: W1,000). The domestic non-fried instant noodle market is estimated at around W140bn, or 6.5% of the overall ramen market, and is largely controlled by Nongshim and Pulmuone. Non-fried noodles make up 20-30% of the Japanese market, but are relatively underdeveloped in Korea, where consumers tend to prefer deep-fried noodles. However, given the recent "well-being" trend, we think quality non-fried noodles with fewer calories would do well with consumers. Considering Nongshim's technology lead in non-fried noodles, we believe it could take rivals more than a year to enter the market.

**3) Counterstrategy against Ottogi and easing of competition:** To counter Ottogi's low pricing strategy for Jin Ramen (Shin Ramyun is 40% more expensive than Jin Ramen, based on actual selling price) and respond to more price-sensitive consumers, Nongshim has launched a more affordable instant noodle called Happy Ramyun (priced at W750; cheaper than Jin Ramen). Meanwhile, we expect the prolonged competition in the instant noodle market to ease. Ottogi has now approached its target market share of 30% following the release of a series of new products (Jin Jjambbong, Jinjja Jjolmyeon, soybean noodle soup ramen, seaweed soup ramen, etc.). On the other hand, Ottogi's ramen margins have come down because of its heavy SG&A spending. In 2019-20, we think Ottogi—facing a lack of new product ideas, consumer fatigue with new products, and SG&A expense pressures—might also shift to a profitability-oriented strategy.

### Earnings normalization to continue in 1Q19

For 4Q18, Nongshim posted a 5.4% YoY gain in revenue and an 81.1% YoY jump in operating profit, helped by stronger overseas revenue, the return to profitability in China, profit growth in the US, and lower SG&A expenses in Korea. We believe the 4Q18 results show that earnings have stabilized. Despite a tough comparison, we expect 1Q19 revenue to grow 3.3% and operating profit to climb 4.5% YoY, as sales during the first two months of the year were fairly solid. For the full year, we see revenue and operating profit growing 3.3% and 15.3% YoY, respectively, with overseas driving revenue and domestic driving profits.

### Maintain Buy and TP of W350,000

We expect Nongshim's earnings to turn around in 2019 and believe the stock's low valuation (P/B of 0.8x) provides downside support. In 2019, we expect the stock's valuation gap with foreign peers like Tingyi, Uni-President, Nissin, Toyo Suisan, and Indofood to narrow.

FY (Dec.)	12/16	12/17	12/18	12/19F	12/20F	12/21F
Revenue (Wbn)	2,217	2,208	2,236	2,310	2,390	2,467
OP (Wbn)	90	96	89	102	112	121
OP margin (%)	4.1	4.3	4.0	4.4	4.7	4.9
NP (Wbn)	199	91	84	94	103	109
EPS (W)	32,764	14,905	13,858	15,521	16,859	17,967
ROE (%)	11.6	5.0	4.5	4.9	5.2	5.3
P/E (x)	10.1	23.8	18.4	18.0	16.5	15.5
P/B (x)	1.1	1.1	0.8	0.8	0.8	0.8
Dividend yield (%)	1.2	1.1	1.6	1.4	1.4	1.6

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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## Growth drivers in the US

In 2018, Nongshim's US subsidiary (no. 3 in the US instant noodles market, with a 19% market share) saw a 9.5% YoY increase in revenue, thanks to Midwest/East Coast expansion and the addition of distribution channels. Operating profit, however, contracted 36.3% YoY, weighed by expenses related to promotion and market penetration, as well as higher raw/secondary material prices. In 2019, we forecast US revenue to grow 11.2% YoY. Nongshim plans to focus on broadening its product lineup (more than six types of products) in modern trade channels (such as hypermarkets; 50% of sales), where the company made huge advances in 2018. In traditional trade channels (such as mom-and-pop stores; 50% of sales), the company is looking to expand its presence in not only Korean stores, but also Hispanic stores, which have traditionally been dominated by Japanese brands. While such efforts may lead to heavy SG&A spending, we project operating profit to expand 31.9% YoY, boosted by price hikes (5% in October 2018) and the stabilization of raw material prices.

The US instant noodles market is worth US\$1.01bn (as of 2016). Annual demand is around 4.1bn packs, the sixth highest in the world (Korea ranks no. 7). US consumers tend to like fusion ramen, and ramen is a popular menu item in restaurants. Many instant noodle makers focus on healthier versions with low sodium. By brand, Maruchan (Japan) accounts for 40% of the US market, followed by Nissin Foods (Japan) at 30% and Nongshim at 19%. Nongshim's Shin Ramyun is considered premium ramen in the US. The company markets the brand as a spicy-flavored ramen and is raising brand recognition through sports sponsorships and social media.

Nongshim currently operates a plant near Los Angeles and concentrates on West Coast sales. With the existing plant reaching maximum capacity, the company is planning to invest over US\$100mn to build a new plant on the East Coast, which will serve that region along with Canada and Mexico (the plan is in the early stages, with the company currently looking for a location).

## Growth drivers in China

In 2018, Nongshim's China subsidiary recorded a 7.1% YoY increase in revenue, and it swung back to an operating profit after being hit hard by the THAAD impact in 2017 (withdrawal from store shelves and suspension of expansion in the western region). The company took a number of steps to restore its business in China, such as regaining shelf space, increasing prices (10%), rolling out new products, beefing up its online channel, and reducing costs.

In 2019, we expect China earnings to return to pre-THAAD (2016) levels, with revenue and operating profit growing 9.7% and 12.4% YoY, respectively. Nongshim intends to resume its efforts to secure buyers in the western inland region, which were suspended in the wake of the THAAD dispute. The company also plans to expand its online operations (currently 10% of sales), especially in third- to fifth-tier cities, which can be difficult to reach through direct channels. In first- and second-tier cities, the company aims to focus more on offline channels. Even after taking into account online commissions, promotions, and delivery costs, we believe OP margin from online sales is 5-10%p higher than that from offline sales.

China's instant noodles market is worth US\$12.3bn (as of 2016). Annual demand is around 39bn packs, the highest in the world. Demand has been declining, due to the rise of alternatives. Packaged instant noodles comprise 61.8% of the market, but that share is continuing to decline. The share of cup instant noodles is rising and currently stands at 38.2%. By brand, Kangshifu controls 46.5% of the market, followed by Tongyi at 17.8% and Jinmailang at 9.9%. Nongshim's market share is estimated at roughly 2%, ranking sixth in China.

Major foreign instant noodle brands operating in China include Nongshim, Singapore's KOKA, Japan's Nissin, and Thailand's MAMA. Nongshim is one of the most well-known and popular foreign brands in the country. The company derives 40% of its China revenue from Shin Ramyun, 30% from Kimchi Ramyun, and 30% from Neoguri and other products. As in the US, Nongshim's brands are considered premium in China and are popular for their springy noodles and tasty soup. The share of Korean brands among China's imported instant noodles has been rising rapidly.

**Table 1. 1Q19 preview**

(Wbn, %)

	1Q18	4Q18	1Q19F		Growth	
			Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	563.1	574.6	581.7	590.6	3.3	1.2
Operating profit	34.4	26.0	36.0	36.7	4.5	38.5
Pretax profit	41.8	32.4	42.5	42.1	1.5	31.1
Net profit	32.1	25.1	32.2	32.5	0.4	28.4
OP margin	6.1	4.5	6.2	6.2	-	-
Net margin	5.7	4.4	5.5	5.5	-	-

Source: Company data, Quantivise, Mirae Asset Daewoo Research estimates

**Table 2. Quarterly and annual earnings**

(Wbn, %)

	18				19F				17	18	19F
	1Q	2Q	3Q	4Q	1QF	2QF	3QF	4QF	Annual	Annual	Annual
Revenue	563	533	566	575	582	553	594	581	2,208	2,236	2,310
Operating profit	34	6	22	26	36	15	28	24	96	89	102
Pretax profit	42	12	26	32	42	18	33	32	119	112	126
Net profit	32	8	19	25	32	14	25	24	91	84	94
OP margin	6.1	1.2	3.8	4.5	6.2	2.6	4.7	4.1	4.4	4.0	4.4
Net margin	5.7	1.4	3.4	4.4	5.5	2.5	4.1	4.1	4.1	3.8	4.1
Revenue growth	1.4	-0.7	-1.0	5.4	3.3	3.8	4.9	1.2	-0.4	1.3	3.3
OP growth	6.0	-64.6	-30.7	81.1	4.5	126.6	27.3	-8.1	7.4	-8.1	15.3
Pretax profit growth	4.0	-48.3	-29.8	71.2	1.5	57.3	25.4	-0.4	-48.8	-6.0	12.4
Net profit growth	7.9	-51.9	-32.8	56.4	0.4	78.7	26.0	-4.4	-54.5	-7.0	12.0

Source: Company data, Mirae Asset Daewoo Research estimates

**Table 3. 2019-20 earnings forecast revisions**

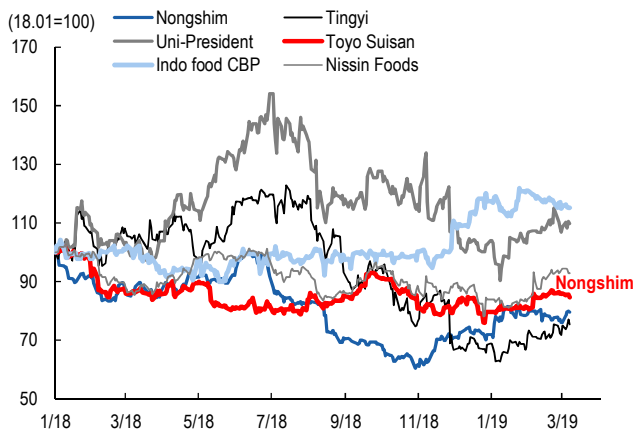
(Wbn, %)

	Previous		Revised		% chg.		Notes
	19F	20F	19F	20F	19F	20F	
	Revenue	2,300	2,372	2,310	2,390	0.4	
Operating profit	100	108	102	112	2.3	3.0	Raw material prices to stabilize
Pretax profit	122	132	126	138	3.5	4.6	
Net profit	91	98	94	103	4.2	4.7	
OP margin	4.3	4.6	4.4	4.7	-	-	
Net margin	3.9	4.1	4.1	4.3	-	-	

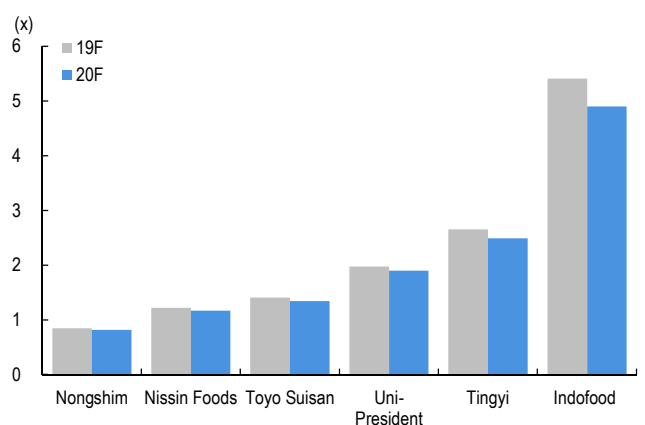
Source: Company data, Mirae Asset Daewoo Research estimates

**Figure 1. Share performance comparison with global peers**

**Figure 2. P/B comparison with global peers**

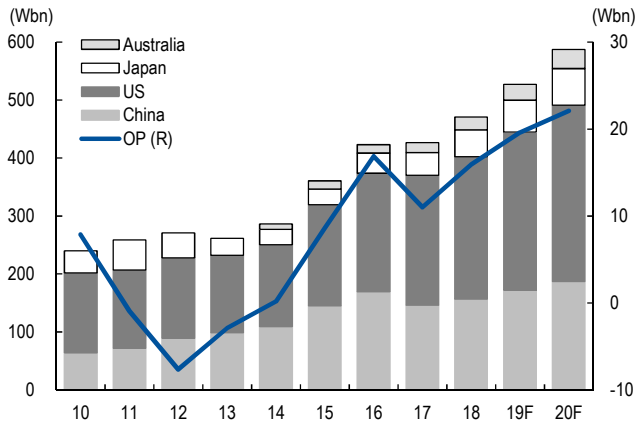


Source: Thomson Reuters, Mirae Asset Daewoo Research



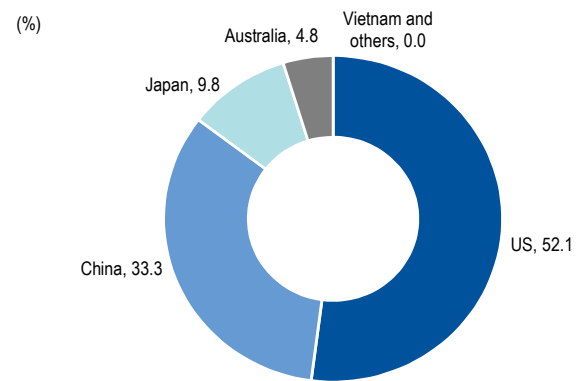
Source: Bloomberg, Mirae Asset Daewoo Research

**Figure 3. Nongshim's overseas revenue and OP**



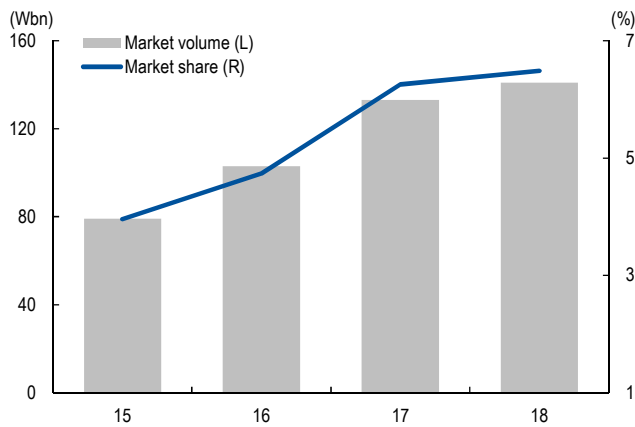
Source: Company data, Mirae Asset Daewoo Research

**Figure 4. Nongshim's overseas revenue by regions (2018)**



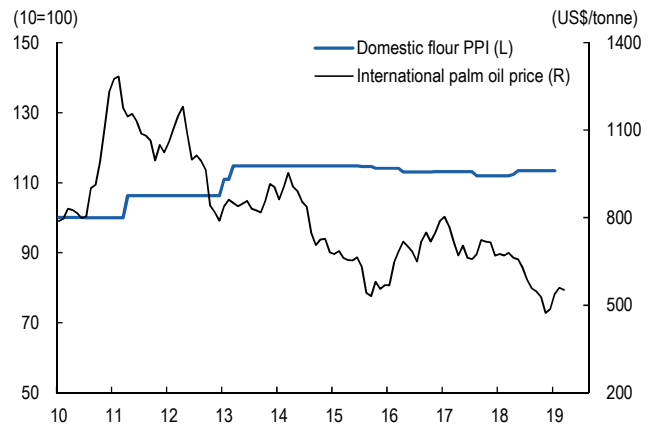
Source: Company data, Mirae Asset Daewoo Research

**Figure 5. Korea dry (non-frying) ramen market volume**



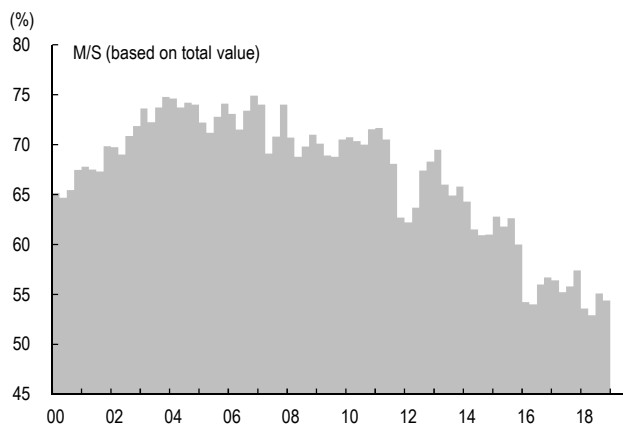
Source: Press reports, Mirae Asset Daewoo Research

**Figure 6. Domestic flour PPI and international palm oil price**



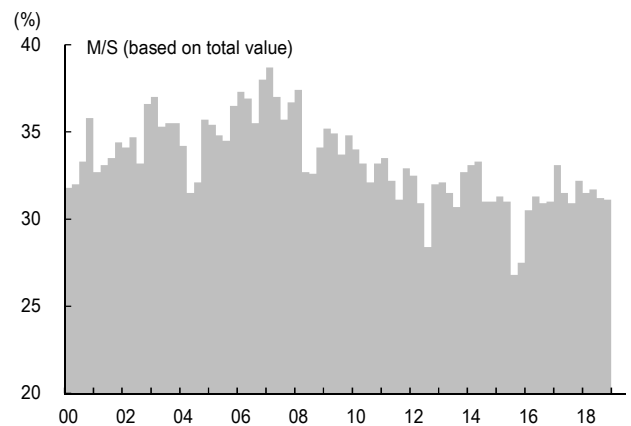
Source: National Statistical Office, Thomson Reuters, Mirae Asset Daewoo Research

**Figure 7. Nongshim's ramen M/S**



Source: Company data, Mirae Asset Daewoo Research

**Figure 8. Nongshim's domestic snack M/S**



Source: Company data, Mirae Asset Daewoo Research

## Nongshim (004370 KS/Buy/TP: W350,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
<b>Revenue</b>	<b>2,236</b>	<b>2,310</b>	<b>2,390</b>	<b>2,467</b>
<b>Cost of Sales</b>	<b>1,565</b>	<b>1,602</b>	<b>1,652</b>	<b>1,700</b>
<b>Gross Profit</b>	<b>671</b>	<b>708</b>	<b>738</b>	<b>767</b>
<b>SG&amp;A Expenses</b>	<b>583</b>	<b>605</b>	<b>626</b>	<b>646</b>
<b>Operating Profit (Adj)</b>	<b>89</b>	<b>102</b>	<b>112</b>	<b>121</b>
<b>Operating Profit</b>	<b>89</b>	<b>102</b>	<b>112</b>	<b>121</b>
<b>Non-Operating Profit</b>	<b>23</b>	<b>24</b>	<b>26</b>	<b>26</b>
Net Financial Income	9	9	9	10
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	112	126	138	147
Income Tax	28	32	35	37
Profit from Continuing Operations	84	95	103	110
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>84</b>	<b>95</b>	<b>103</b>	<b>110</b>
Controlling Interests	84	94	103	109
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>80</b>	<b>77</b>	<b>103</b>	<b>110</b>
Controlling Interests	80	76	102	109
Non-Controlling Interests	0	0	0	0
EBITDA	173	189	198	209
FCF (Free Cash Flow)	59	79	89	96
EBITDA Margin (%)	7.7	8.2	8.3	8.5
Operating Profit Margin (%)	4.0	4.4	4.7	4.9
Net Profit Margin (%)	3.8	4.1	4.3	4.4

## Cash Flows (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Cash Flows from Op Activities	147	174	185	191
Net Profit	84	95	103	110
Non-Cash Income and Expense	134	109	113	115
Depreciation	83	85	85	86
Amortization	1	2	2	2
Others	50	22	26	27
Chg in Working Capital	-47	1	5	4
Chg in AR & Other Receivables	28	-2	-8	-7
Chg in Inventories	-32	-2	-8	-7
Chg in AP & Other Payables	-2	3	9	8
<b>Income Tax Paid</b>	<b>-34</b>	<b>-32</b>	<b>-35</b>	<b>-37</b>
Cash Flows from Inv Activities	-129	-109	-102	-102
Chg in PP&E	-88	-95	-97	-95
Chg in Intangible Assets	0	0	0	-5
Chg in Financial Assets	19	-5	-18	-15
<b>Others</b>	<b>-60</b>	<b>-9</b>	<b>13</b>	<b>13</b>
Cash Flows from Fin Activities	-6	-16	-26	-31
Chg in Financial Liabilities	20	10	0	-5
Chg in Equity	0	0	0	0
Dividends Paid	-23	-23	-23	-23
<b>Others</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>
Increase (Decrease) in Cash	12	102	56	58
Beginning Balance	155	168	270	326
<b>Ending Balance</b>	<b>168</b>	<b>270</b>	<b>326</b>	<b>384</b>

Source: Company data, Mirae Asset Daewoo Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
<b>Current Assets</b>	<b>1,054</b>	<b>1,166</b>	<b>1,258</b>	<b>1,345</b>
Cash and Cash Equivalents	168	270	326	384
AR & Other Receivables	197	199	207	214
Inventories	202	205	213	220
Other Current Assets	487	492	512	527
<b>Non-Current Assets</b>	<b>1,479</b>	<b>1,436</b>	<b>1,446</b>	<b>1,458</b>
Investments in Associates	6	6	7	7
Property, Plant and Equipment	1,158	1,167	1,179	1,187
Intangible Assets	60	61	60	63
<b>Total Assets</b>	<b>2,532</b>	<b>2,602</b>	<b>2,704</b>	<b>2,803</b>
<b>Current Liabilities</b>	<b>522</b>	<b>528</b>	<b>547</b>	<b>564</b>
AP & Other Payables	235	238	247	255
Short-Term Financial Liabilities	35	35	35	35
Other Current Liabilities	252	255	265	274
<b>Non-Current Liabilities</b>	<b>112</b>	<b>123</b>	<b>125</b>	<b>122</b>
Long-Term Financial Liabilities	53	63	63	58
Other Non-Current Liabilities	59	60	62	64
<b>Total Liabilities</b>	<b>635</b>	<b>651</b>	<b>673</b>	<b>686</b>
<b>Controlling Interests</b>	<b>1,885</b>	<b>1,938</b>	<b>2,018</b>	<b>2,104</b>
Capital Stock	30	30	30	30
Capital Surplus	121	121	121	121
Retained Earnings	1,842	1,914	1,993	2,079
<b>Non-Controlling Interests</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
<b>Stockholders' Equity</b>	<b>1,898</b>	<b>1,951</b>	<b>2,031</b>	<b>2,117</b>

## Forecasts/Valuations (Summarized)

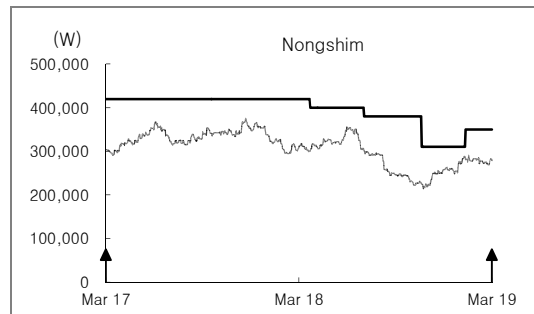
	12/18	12/19F	12/20F	12/21F
P/E (x)	18.4	18.0	16.5	15.5
P/CF (x)	7.1	8.3	7.9	7.5
P/B (x)	0.8	0.8	0.8	0.8
EV/EBITDA (x)	5.9	5.7	5.1	4.4
EPS (W)	13,858	15,521	16,859	17,967
CFPS (W)	35,848	33,530	35,503	36,967
BPS (W)	323,198	331,957	345,013	359,177
DPS (W)	4,000	4,000	4,000	4,500
Payout ratio (%)	27.4	24.4	22.5	23.8
Dividend Yield (%)	1.6	1.4	1.4	1.6
Revenue Growth (%)	1.3	3.3	3.5	3.2
EBITDA Growth (%)	-3.4	9.2	4.8	5.6
Operating Profit Growth (%)	-7.3	14.6	9.8	8.0
EPS Growth (%)	-7.0	12.0	8.6	6.6
Accounts Receivable Turnover (x)	10.6	11.7	11.8	11.7
Inventory Turnover (x)	11.9	11.3	11.4	11.4
Accounts Payable Turnover (x)	6.6	6.8	6.8	6.8
ROA (%)	3.4	3.7	3.9	4.0
ROE (%)	4.5	4.9	5.2	5.3
ROIC (%)	5.6	6.5	7.1	7.6
Liability to Equity Ratio (%)	33.4	33.4	33.1	32.4
Current Ratio (%)	201.8	220.9	229.8	238.6
Net Debt to Equity Ratio (%)	-28.1	-32.3	-34.7	-37.0
Interest Coverage Ratio (x)	24.3	31.5	34.4	38.2

# APPENDIX 1

## Important Disclosures & Disclaimers

### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Nongshim (004370)	01/17/2019	Buy	350,000
	10/26/2018	Buy	310,000
	07/09/2018	Buy	380,000
	03/29/2018	Buy	400,000
	12/05/2017	After 1yr	
	12/05/2016	Buy	420,000



### 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	81.28%	9.63%	9.09%	0.00%
Investment Banking Services	84.61%	3.85%	11.54%	0.00%

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

### Disclosures

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