

# Cosmetics

## Neutral (Maintain)

### Impact of China's e-commerce supervision guidelines

- Supervision guidelines on China's e-commerce law use the word "*daigou*" for the first time
- E-commerce law aims to protect consumers rather than curb *daigou* activities
- LG H&H remains our top pick

#### Supervision guidelines on China's e-commerce law: First use of the word "*daigou*"

On June 20<sup>th</sup>, China's State Administration for Market Regulation (SAMR) announced detailed supervision guidelines on the country's e-commerce law, which took effect in January this year. Upon the announcement, share prices of Korean cosmetics companies, including LG H&H, moved lower.

Some of the measures detailed in the guidelines include: 1) regulating the qualification of e-commerce operators; 2) cracking down on sales of fake and unsafe goods; 3) curbing unfair competition by online platforms; and 4) regulating overseas *daigou* activities. Overall, there were no significant changes from the e-commerce law announced in January.

That said, the latest guidelines did specifically mention the word "*daigou*" for the first time; this appeared in a section providing details on the crackdown on illegal online transactions. In addition, the guidelines require related supervising authorities to report at least five violations to the SAMR by December. We thus believe it is highly likely that China will temporarily step up its crackdown on illegal sellers and custom checks at airports to enforce the new e-commerce law.

#### E-commerce law aims to protect consumers rather than curb *daigou* activities

However, we think the Chinese government is unlikely to strengthen the crackdown on a sustained basis, as continuing to take tough measures against illegal *daigou* activities could harm China's online retail market and overall consumer spending.

Rather than curbing *daigou* activities, we think the intended effect of the new e-commerce law is to protect overall consumer rights in the online market. As such, we believe the implementation of the e-commerce law will have a limited impact on demand for global luxury/Korean cosmetics over the long term.

#### LG H&H remains our top pick

In the near term, cosmetics stocks are likely to react sensitively to any negative news regarding China's e-commerce law. However, we view any near-term correction sparked by worries related to the e-commerce law as an opportunity to add positions to quality, branded cosmetics firms, such as LG H&H.

LG H&H has steadily expanded its share in China's luxury skin care market, driven by more flexible, distinctive marketing strategies and execution abilities compared to global luxury rivals, as well as the success of the new Losec Summa line. We maintain our Buy call and target price of W1,640,000 on LG H&H and reiterate the stock as our top pick in Korean cosmetics.

Table 1. Valuation table: Global luxury cosmetic companies

(Wbn, US\$mnn, EURmnn, JPYbn, %, x)

		LG H&H	AmorePacific	Estee Lauder	L'Oreal	Shiseido	Kose
Ticker		051900 KS	090430 KS	EL US	OR FP	4911 JP	4922 JP
Local currency		W	W	US\$	EUR	JPY	JPY
Current price (local currency)		1,308,000	171,500	181.25	255.30	8,464	17,750
Revenue	2017	6,270	5,124	11,826	26,024	1,005	267
(local currency)	2018	6,748	5,278	13,691	26,937	1,095	303
	2019F	7,376	5,577	14,781	29,258	1,177	332
	2020F	7,837	6,060	15,786	30,858	1,279	355
Operating profit	2017	930	596	1,878	4,247	80	39
(local currency)	2018	1,039	482	2,266	4,912	108	48
	2019F	1,173	511	2,540	5,391	125	52
	2020F	1,287	616	2,792	5,790	154	59
Net profit	2017	607	394	1,249	3,581	23	22
(local currency)	2018	683	332	1,108	3,895	61	31
	2019F	790	355	1,830	4,357	80	37
	2020F	874	435	2,092	4,674	99	40
OP margin (%)	2017	14.8	11.6	15.9	16.3	8.0	14.7
	2018	15.4	9.1	16.6	18.2	9.9	16.0
	2019F	15.9	9.2	17.2	18.4	10.6	15.8
	2020F	16.4	10.2	17.7	18.8	12.1	16.6
Net margin (%)	2017	9.7	7.7	10.6	13.8	2.3	8.1
	2018	10.1	6.3	8.1	14.5	5.6	10.1
	2019F	10.7	6.4	12.4	14.9	6.8	11.1
	2020F	11.1	7.2	13.3	15.1	7.7	11.2
ROE (%)	2017	21.3	9.9	31.4	14.5	5.6	14.1
	2018	20.4	7.8	24.4	15.6	18.0	17.7
	2019F	20.0	7.8	40.6	15.5	16.9	19.6
	2020F	18.9	9.0	48.1	15.5	18.8	18.7
ROA (%)	2017	13.3	7.5	12.0	10.1	2.4	9.0
	2018	13.9	6.1	9.2	10.6	6.3	11.8
	2019F	14.6	6.2	15.2	10.9	8.8	16.2
	2020F	14.3	7.1	16.9	11.1	10.3	15.9
Dividend yield (%)	2017	0.7	0.7	1.2	1.8	0.5	0.8
	2018	0.8	0.8	1.3	1.8	0.7	1.0
	2019F	0.9	0.8	1.0	1.8	0.7	0.9
	2020F	1.0	0.9	1.1	1.9	0.9	0.8
EPS	2017	38,843	6,740	3.4	6.4	56.9	379.7
(local currency)	2018	43,715	5,683	3.0	6.9	153.6	536.6
	2019F	50,565	6,077	4.7	7.8	199.8	648.7
	2020F	55,944	7,437	5.5	8.3	247.8	700.5
EPS growth (%)	2017	6.8	-38.4	8.0	3.0	-29.0	16.0
	2018	12.5	-15.7	-11.9	8.8	170.0	41.3
	2019F	15.7	6.9	16.1	12.2	30.1	20.9
	2020F	10.6	22.4	16.8	7.5	24.0	8.0
EV/EBITDA (x)	2017	19.2	12.8	22.6	17.8	17.4	21.8
	2018	16.6	14.3	18.6	18.5	17.9	17.3
	2019F	14.4	13.2	21.2	21.2	18.1	14.6
	2020F	12.7	11.2	19.5	19.9	14.1	13.4
P/E (x)	2017	33.7	25.4	26.0	27.1	95.6	46.3
	2018	29.9	30.2	31.6	29.5	44.8	32.2
	2019F	25.9	28.2	34.6	32.5	43.4	25.3
	2020F	23.4	23.1	31.4	30.0	32.9	22.9

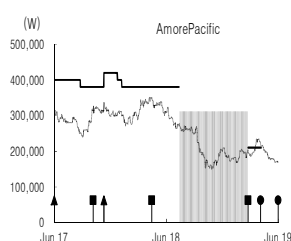
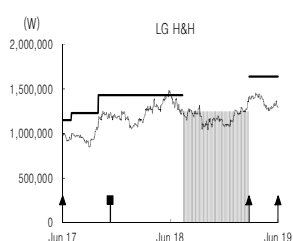
Source: Bloomberg, Mirae Asset Daewoo Research

## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price	Company (Code)	Date	Rating	Target Price
LG H&H (051900)	08/07/2018	No Coverage			08/07/2018	No Coverage	
	05/09/2018	Trading Buy	380,000		01/31/2018	Buy	380,000
	12/04/2017	Trading Buy	1,430,000		01/17/2018	Buy	400,000
	10/24/2017	Buy	1,430,000		12/04/2017	Buy	420,000
	07/25/2017	Buy	1,230,000		10/30/2017	Trading Buy	380,000
	05/01/2017	Buy	1,150,000		09/18/2017	Buy	380,000
					05/25/2017	Buy	400,000
AmorePacific (090430)	04/29/2019	Hold	-				
	03/19/2019	Trading Buy	210,000				



#### 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	83.52%	8.24%	8.24%	0.00%
Investment Banking Services	82.61%	4.35%	13.04%	0.00%

\* Based on recommendations in the last 12-months (as of March 31, 2019)

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