MIRAE ASSET
Building on principles

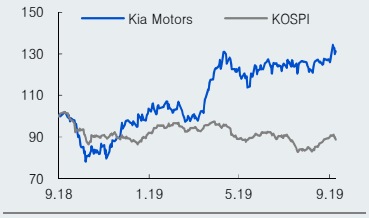
Auto

Company Report
October 1, 2019

(Downgrade)	Trading Buy
Target Price (12M, W)	▲ 53,000
Share Price (09/27/19, W)	45,350
Expected Return	17%

OP (19F, Wbn)	2,109
Consensus OP (19F, Wbn)	2,086
EPS Growth (19F, %)	95.5
Market EPS Growth (19F, %)	-28.2
P/E (19F, x)	8.1
Market P/E (19F, x)	13.0
KOSPI	2,049.93
Market Cap (Wbn)	18,383
Shares Outstanding (mn)	405
Free Float (%)	62.0
Foreign Ownership (%)	43.0
Beta (12M)	0.75
52-Week Low	27,000
52-Week High	46,400

(%)	1M	6M	12M
Absolute	8.5	31.1	28.7
Relative	1.9	37.2	47.8



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Kia Motors

(000270 KS)

Reasons for outperformance

Reasons for Kia's outperformance

Shares of Kia Motors (Kia) have performed strongly over the past year, displaying resilience even during periods when the overall automotive sector has come under pressure. Indeed, Kia has outperformed other major automotive stocks. We attribute this to several factors:

Global market share growth: In 2019, Kia's global market share in retail sales terms has remained around a three-year high. Given unusually weak automotive demand, we believe market share gains (rather than sales volume changes) are driving share prices.

Strong performance in the US: Sales volume and utilization in the US sharply increased in 1H19, supported by Telluride sales. While the US automotive industry's average incentive payments rose, the firm's average incentive payments declined.

Product mix improvement: Kia's product mix has been improving, led by the Telluride. The share of SUVs/light trucks in the product mix has increased 10%p over the past two years, fueling expectations for margin improvement.

Other: The won's persistent weakness has boosted earnings, while lower end-quarter US$/W rates have helped limit warranty expenses. Moreover, we believe Kia looks more compelling than global peers due to its high exposure to the resilient US auto market and low exposure to the shrinking Chinese market.

Favorable environment and business competitiveness

We expect Kia's share price momentum to remain intact in 2H19. Ordinary wage dispute-related uncertainties have eased (with related provisions being reversed in 1Q19), and a favorable comparison owing to the absence of labor strikes in 3Q19 has also raised expectations for earnings. In addition, we believe new model effects began to materialize in 3Q19.

New model effects: We believe new model effects were the primary driver of share price momentum in 3Q19 (vs. favorable market conditions in 2Q19). In Korea, we see volume effects and mix improvements from the Seltos, Mohave, and new K5. In the US, we believe solid sales of the Seltos, K7, and Niro are helping to stabilize incentives at a lower level. We believe Kia's 2H19 new model lineup is a major source of competitiveness.

Earnings momentum in India: The Indian plant is likely to break even faster than expected. The Seltos drew 22,000 pre-orders only three weeks after pre-orders started in July. Kia should achieve its annual production goal of 52,000 units in 2019 and 300,000 units within three years. The Modi administration's business-friendly policies (e.g., the recent corporate tax cuts) should drive demand growth over the medium and long term.

FY (Dec.)	12/16	12/17	12/18	12/19F	12/20F	12/21F
Revenue (Wbn)	52,713	53,536	54,170	55,427	56,313	58,504
OP (Wbn)	2,461	662	1,157	2,109	2,272	2,447
OP margin (%)	4.7	1.2	2.1	3.8	4.0	4.2
NP (Wbn)	2,755	968	1,156	2,260	2,520	2,835
EPS (W)	6,795	2,388	2,852	5,575	6,217	6,994
ROE (%)	10.8	3.6	4.3	8.0	8.3	8.6
P/E (x)	5.8	14.0	11.8	8.1	7.3	6.5
P/B (x)	0.6	0.5	0.5	0.6	0.6	0.5
Dividend yield (%)	2.8	2.4	2.7	2.0	2.0	2.0

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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Downgrade to Trading Buy, but lift TP to W53,000

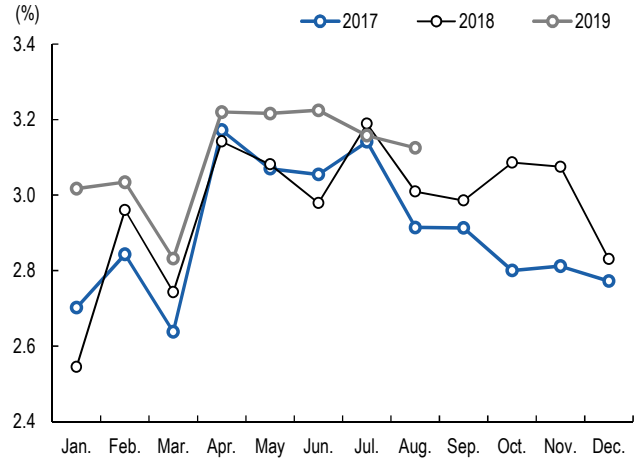
We raise our target price on Kia by 20% to W53,000, which corresponds to 9x our 12-month forward EPS estimate. However, we downgrade our rating to Trading Buy to reflect the limited upside following recent share price gains.

Table 1. Earnings forecast revisions (Wbn, %)

	Revised		Previous		% chg.	
	2019F	2020F	2019F	2020F	2019F	2020F
Revenue	55,427	56,313	55,569	56,313	-0.3	0.0
Operating profit	2,109	2,272	1,395	1,671	51.2	36.0
OP margin	3.8	4.0	2.5	3.0	-	-
Pretax profit	2,987	2,987	2,101	2,452	42.2	21.8
Net profit	2,260	2,520	1,786	2,085	26.5	20.9

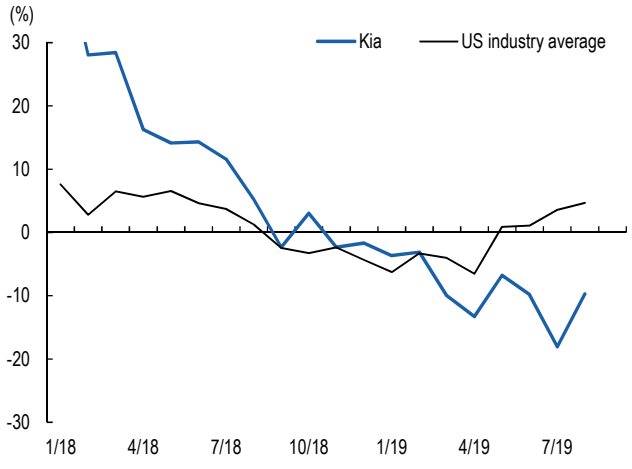
Source: Mirae Asset Daewoo Research estimates

Figure 1. Kia's global M/S trends (based on retail sales)



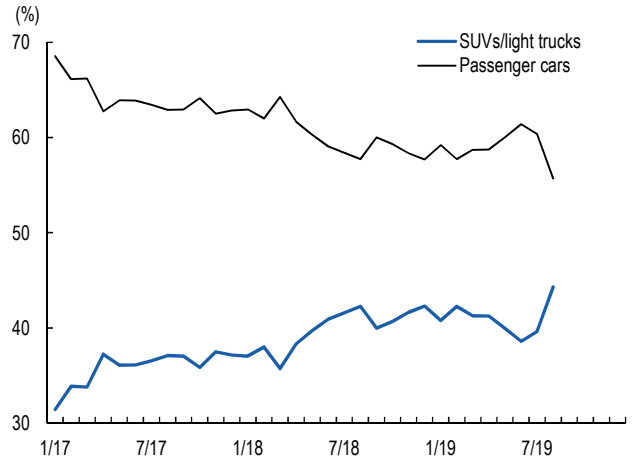
Source: Company data, LMC Automotive, Mirae Asset Daewoo Research

Figure 2. US market inventive growth trends



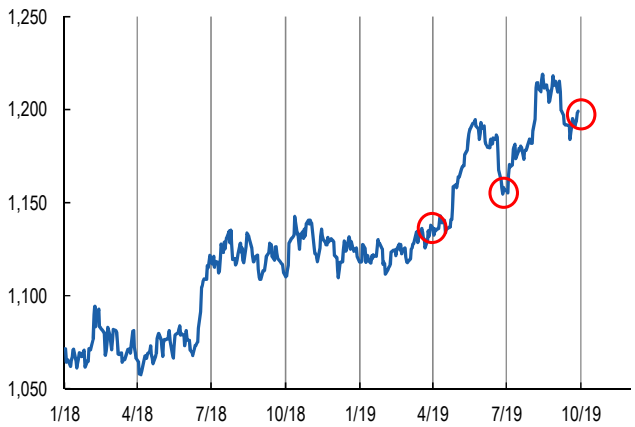
Source: Autodata, Mirae Asset Daewoo Research

Figure 3. Kia's global retail sales mix trends



Source: Marklines, Mirae Asset Daewoo Research

Figure 4. US$/W trend



Source: Quantiwise, Mirae Asset Daewoo Research

Kia Motors (000270 KS/Trading Buy/TP: W53,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Revenue	**54,170**	**55,427**	**56,313**	**58,504**
Cost of Sales	**46,177**	**46,596**	**47,585**	**49,445**
Gross Profit	**7,993**	**8,831**	**8,728**	**9,059**
SG&A Expenses	**6,835**	**6,722**	**6,456**	**6,612**
Operating Profit (Adj)	**1,157**	**2,109**	**2,272**	**2,447**
Operating Profit	**1,157**	**2,109**	**2,272**	**2,447**
Non-Operating Profit	**312**	**878**	**715**	**888**
Net Financial Income	10	53	148	237
Net Gain from Inv in Associates	617	706	568	651
Pretax Profit	1,469	2,987	2,987	3,335
Income Tax	313	728	467	500
Profit from Continuing Operations	1,156	2,260	2,520	2,835
Profit from Discontinued Operations	0	0	0	0
Net Profit	1,156	2,260	2,520	2,835
Controlling Interests	1,156	2,260	2,520	2,835
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	**703**	**2,582**	**2,520**	**2,835**
Controlling Interests	703	2,582	2,520	2,835
Non-Controlling Interests	0	0	0	0
EBITDA	3,092	4,144	4,078	4,031
FCF (Free Cash Flow)	2,094	3,331	4,521	4,656
EBITDA Margin (%)	5.7	7.5	7.2	6.9
Operating Profit Margin (%)	2.1	3.8	4.0	4.2
Net Profit Margin (%)	2.1	4.1	4.5	4.8

Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Current Assets	**19,712**	**22,373**	**26,462**	**30,670**
Cash and Cash Equivalents	2,293	4,348	7,970	11,608
AR & Other Receivables	3,472	3,647	3,750	3,874
Inventories	7,234	7,599	7,812	8,072
Other Current Assets	6,713	6,779	6,930	7,116
Non-Current Assets	**32,075**	**32,530**	**31,125**	**30,030**
Investments in Associates	13,348	14,022	14,415	14,895
Property, Plant and Equipment	14,803	14,664	13,337	12,131
Intangible Assets	2,510	2,244	1,765	1,388
Total Assets	**51,787**	**54,902**	**57,586**	**60,700**
Current Liabilities	**14,835**	**15,521**	**15,891**	**16,342**
AP & Other Payables	8,542	8,973	9,225	9,532
Short-Term Financial Liabilities	2,280	2,333	2,333	2,333
Other Current Liabilities	4,013	4,215	4,333	4,477
Non-Current Liabilities	**9,708**	**9,968**	**10,123**	**10,311**
Long-Term Financial Liabilities	4,466	4,462	4,462	4,462
Other Non-Current Liabilities	5,242	5,506	5,661	5,849
Total Liabilities	**24,543**	**25,489**	**26,014**	**26,653**
Controlling Interests	**27,243**	**29,413**	**31,572**	**34,047**
Capital Stock	2,139	2,139	2,139	2,139
Capital Surplus	1,716	1,716	1,716	1,716
Retained Earnings	24,712	26,481	28,641	31,115
Non-Controlling Interests	**0**	**0**	**0**	**0**
Stockholders' Equity	**27,243**	**29,413**	**31,572**	**34,047**

Cash Flows (Summarized)

(Wbn)	12/18	12/19F	12/20F	12/21F
Cash Flows from Op Activities	4,471	4,286	4,521	4,656
Net Profit	1,156	2,260	2,520	2,835
Non-Cash Income and Expense	3,732	2,562	1,640	1,362
Depreciation	1,303	1,440	1,327	1,207
Amortization	632	596	479	377
Others	1,797	526	-166	-222
Chg in Working Capital	-30	-640	195	237
Chg in AR & Other Receivables	-396	-130	-60	-74
Chg in Inventories	1,162	-430	-213	-260
Chg in AP & Other Payables	1,004	181	184	224
Income Tax Paid	**-557**	**-327**	**-467**	**-500**
Cash Flows from Inv Activities	-1,155	-1,357	-145	-177
Chg in PP&E	-2,297	-916	0	0
Chg in Intangible Assets	-703	-321	0	0
Chg in Financial Assets	3,770	-249	-145	-177
Others	**-1,925**	**129**	**0**	**0**
Cash Flows from Fin Activities	-2,543	-630	-361	-361
Chg in Financial Liabilities	-2,089	48	0	0
Chg in Equity	0	0	0	0
Dividends Paid	-321	-361	-361	-361
Others	**-133**	**-317**	**0**	**0**
Increase (Decrease) in Cash	731	2,056	3,621	3,638
Beginning Balance	1,562	2,293	4,348	7,970
Ending Balance	**2,293**	**4,348**	**7,970**	**11,608**

Forecasts/Valuations (Summarized)

	12/18	12/19F	12/20F	12/21F
P/E (x)	11.8	8.1	7.3	6.5
P/CF (x)	2.8	3.8	4.4	4.4
P/B (x)	0.5	0.6	0.6	0.5
EV/EBITDA (x)	3.8	3.5	2.6	1.7
EPS (W)	2,852	5,575	6,217	6,994
CFPS (W)	12,058	11,896	10,264	10,353
BPS (W)	67,741	73,093	78,420	84,524
DPS (W)	900	900	900	900
Payout ratio (%)	31.2	16.0	14.3	12.7
Dividend Yield (%)	2.7	2.0	2.0	2.0
Revenue Growth (%)	1.2	2.3	1.6	3.9
EBITDA Growth (%)	22.8	34.0	-1.6	-1.2
Operating Profit Growth (%)	74.8	82.3	7.7	7.7
EPS Growth (%)	19.4	95.5	11.5	12.5
Accounts Receivable Turnover (x)	26.2	26.4	25.8	26.0
Inventory Turnover (x)	6.9	7.5	7.3	7.4
Accounts Payable Turnover (x)	8.1	7.3	7.2	7.2
ROA (%)	2.2	4.2	4.5	4.8
ROE (%)	4.3	8.0	8.3	8.6
ROIC (%)	5.1	9.4	11.9	14.4
Liability to Equity Ratio (%)	90.1	86.7	82.4	78.3
Current Ratio (%)	132.9	144.1	166.5	187.7
Net Debt to Equity Ratio (%)	-6.5	-13.0	-24.0	-33.4
Interest Coverage Ratio (x)	5.7	13.1	15.8	17.0

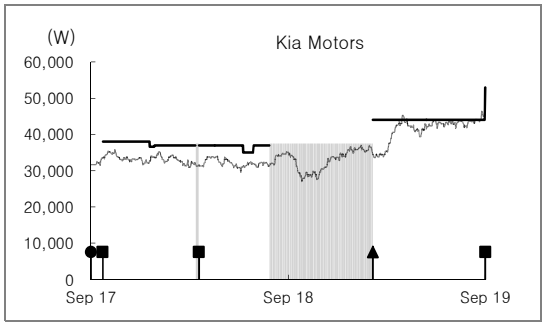
Source: Company data, Mirae Asset Daewoo Research estimates

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Kia(000270)	09/30/2019	Trading Buy	53,000
	03/06/2019	Buy	44,000
	08/27/2018	No Coverage	
	07/28/2018	Trading Buy	37,000
	07/09/2018	Trading Buy	35,000
	04/18/2018	Trading Buy	37,000
	04/12/2018	No Coverage	
	01/26/2018	Trading Buy	37,000
	01/17/2018	Trading Buy	36,600
	10/22/2017	Trading Buy	38,000
	01/18/2017	Hold	-



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	83.14%	8.72%	8.14%	0.00%
Investment Banking Services	77.78%	11.11%	11.11%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2019)

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