

# Conglomerates

## Lotte Group: Impact of inherited stakes to be limited; Hotel Lotte's IPO push to resume for ownership structure overhaul

### Inheritance taxes on Shin Kyuk-ho's holdings in domestic Lotte affiliates to be around W254.5bn

Shin Kyuk-ho, the honorary chairman of Lotte Group, died on Sunday. His holdings in domestic Lotte affiliates, including Lotte Corp. (3.1%), Lotte Confectionery (4.5%), Lotte Shopping (0.9%), and Lotte Chilsung (1.3%), are currently believed to be valued at W429.5bn, and inheritance taxes on those holdings are estimated to be roughly W254.5bn (not yet determined). Inheritance taxes (taxable value, etc.) will need to be reported by July this year, and the taxes due will be determined based on how much each individual inherits. If an individual's inheritance taxes exceed W20mn, he or she can pay it in long-term installments over a five-year period.

Shin Kyuk-ho also owned stakes in Lotte's Japanese affiliates, including Kojunsha Corp. (0.8%), Lotte Holdings (0.5%), LSI (1.7%), and Lotte Green Service (9.3%). Factoring in these assets, the amount of inheritance taxes payable could increase.

### Lotte Group, led by Chairman Shin Dong-bin, will likely maintain stable control, regardless of inheritance outcome

Lotte Group—Korea's fifth-largest group by assets—has secured stable control over key domestic affiliates—e.g., Lotte Shopping, Lotte Chilsung, Lotte Confectionery, and Lotte Chemical—through Lotte Corp., which was launched in October 2017. Chairman Shin Dong-bin and related parties collectively own a 42.6% stake in Lotte Corp., thus guaranteeing stable control. When further taking into account the 32.5% in treasury stock held by Lotte Corp., the percentage of actual voting rights increases to 63.1%.

Meanwhile, regardless of how Shin Kyuk-ho's stakes are divided, we believe the risk of Shin Dong-bin and Shin Dong-joo (the former vice chairman of Lotte Holdings) feuding over control is limited. In June 2019, Lotte Holdings' shareholders voted to keep Shin Dong-bin on the company's board, while voting against Shin Dong-joo's return to the board. Backed by continued support from Lotte's management in Japan, we believe Shin Dong-bin will continue to exercise stable managerial control over Lotte Group.

### Hotel Lotte's IPO push to resume; Hotel Lotte-Lotte Corp. merger to complete ownership structure overhaul

In addition to an 11.1% stake in Lotte Corp., Hotel Lotte also owns 31.1% of Lotte Property & Development, 38.2% of Lotte Aluminium, 43.1% of Lotte E&C, and 25.7% of Lotte Rental. Hotel Lotte's IPO—a move that looks likely to resume, given the duty-free business's recent earnings improvements—is seen as critical for the group to merge the company with Lotte Corp. and thus complete its ownership structure overhaul. Selling Hotel Lotte shares in an IPO will essentially reduce Japanese ownership in the company, while merging Hotel Lotte with Lotte Corp. (after the market price stabilizes) will bring group affiliates currently under the control of Hotel Lotte into the holding company structure at no additional cost.

### Lotte Corp.'s major shareholders

	No. of shares	Stake (%)	Value (Wbn)	Voting rights (%)
Hotel Lotte	11,644,662	11.1	415.7	16.4
Lotte Aluminium	5,313,478	5.1	189.7	7.5
Lotte Holdings	2,613,965	2.5	93.3	3.7
L2 investment company	1,548,547	1.5	55.3	2.2
Hotel Lotte Busan	989,749	0.9	35.3	1.4
L12 investment company	823,865	0.8	29.4	1.2
<b>Subtotal (1)</b>	<b>22,934,266</b>	<b>21.9</b>	<b>818.8</b>	<b>32.4</b>
Shin Dong-bin	12,283,541	11.7	438.5	17.3
Shin Kyuk-ho	3,245,425	3.1	115.9	4.6
Shin Young-ja	2,352,422	2.2	84.0	3.3
Shin Dong-joo	171,673	0.2	6.1	0.2
Jang Jeong-an	77,037	0.1	2.8	0.1
Shin Yu-mi	42,254	0.0	1.5	0.1
Jang Sun-yoon	801	0.0	0.0	0.0
Lotte Scholarship Foundation	3,394,589	3.2	121.2	4.8
Lotte Foundation for Arts	90,869	0.1	3.2	0.1
Lotte Samdong Welfare	54,807	0.1	2.0	0.1
<b>Subtotal (2): Controlling family + foundations</b>	<b>21,713,418</b>	<b>20.7</b>	<b>775.2</b>	<b>30.7</b>
<b>Specially related parties</b>	<b>44647684</b>	<b>43</b>	<b>1594</b>	<b>63.1</b>
<b>Subtotal (1) + (2)</b>	<b>34,103,935</b>	<b>32.5</b>	<b>1,217.5</b>	<b>-</b>
Treasury stock	34,103,935	32.5	1,217.5	-
<b>Total</b>	<b>104,909,237</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>

Note: Based on January 17, 2020 common stock closing prices

Source: DART, Mirae Asset Daewoo Research

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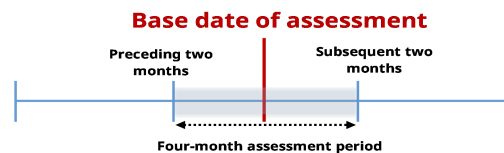
**Table 1. Inheritance tax estimates for Shin Kyuk-ho's stakes**

(Wbn)

Company	Inheritance		Inheritance tax		
	No. of shares	Stake (%)	Share price (W)	Value	Inheritance tax (est.)
Lotte Corp.	3,245,425	3.1	35,700	115.9	69.1
Lotte Corp. (preferred)	139,847	14.2	57,900	8.1	4.4
Lotte Shopping	262,438	0.9	136,500	35.8	21.0
Lotte Confectionery	287,408	4.5	145,000	41.7	24.5
Lotte Chilsung	104,080	1.3	132,000	13.7	7.8
Lotte Chilsung (preferred)	109,780	14.2	69,900	7.7	4.1
Lotte Property & Development	4,085,850	6.9	50,579	206.7	123.5
<b>Total</b>				<b>429.5</b>	<b>254.5</b>

Notes: Shin Kyuk-ho, honorary chairman of Lotte Group, passed away on January 19, 2020; based on January 17<sup>th</sup> closing prices; inheritance taxes on listed shares are based on the average daily closing price for the two-month periods preceding and following the base date of assessment (total of four months); the value of Shin's stake in Lotte Property & Development is based on book value.

Source: DART, Mirae Asset Daewoo Research

**Figure 1. Assessment of listed shares under Inheritance Tax and Gift Tax Act**

Source: Mirae Asset Daewoo Research

**Table 2. Tax rates for inheritance and gift taxes**

Base	Rate	Progressive deductions
Up to W0.1bn	10%	-
Over W0.1bn to W0.5bn	20%	W0.01bn
Over W0.5bn to W1bn	30%	W0.06bn
Over W1bn to W3bn	40%	W0.16bn
Over W3bn	50%	W0.46bn

Source: Article 26 of Inheritance Tax and Gift Tax Act, Mirae Asset Daewoo Research

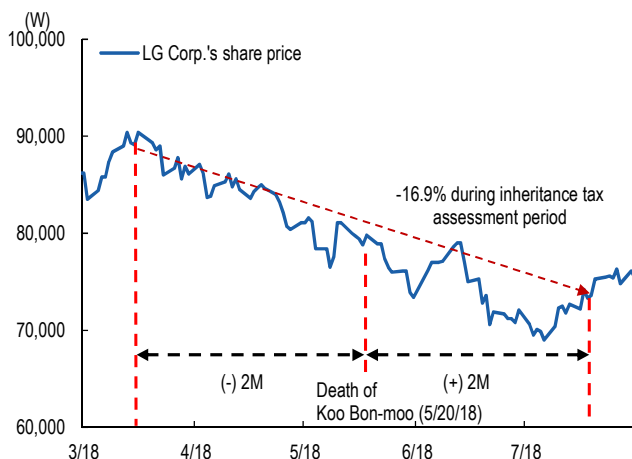
**Table 3. Tax rates applied to largest shareholders under Inheritance Tax and Gift Tax Act**

Stake	SME	Other
Up to 50%	0%	20%
More than 50%	0%	20%

Notes: Excluding shares of companies that have recorded losses for three straight years prior to the business year in which the base date of assessment falls; based on the 2019 tax law revision

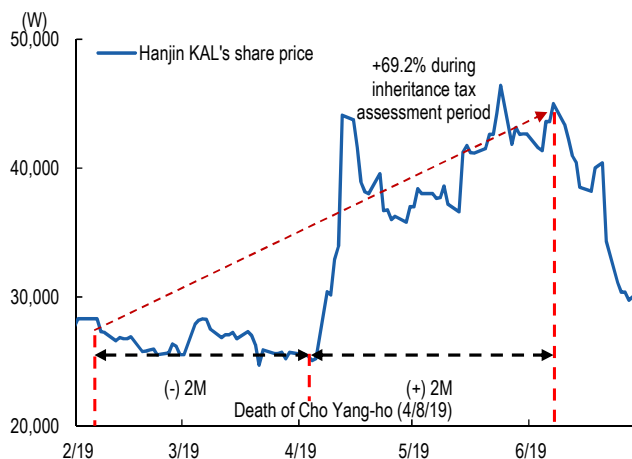
Source: Article 63 of Inheritance Tax and Gift Tax Act, Mirae Asset Daewoo Research

Figure 2. Case 1: LG Corp.'s share performance



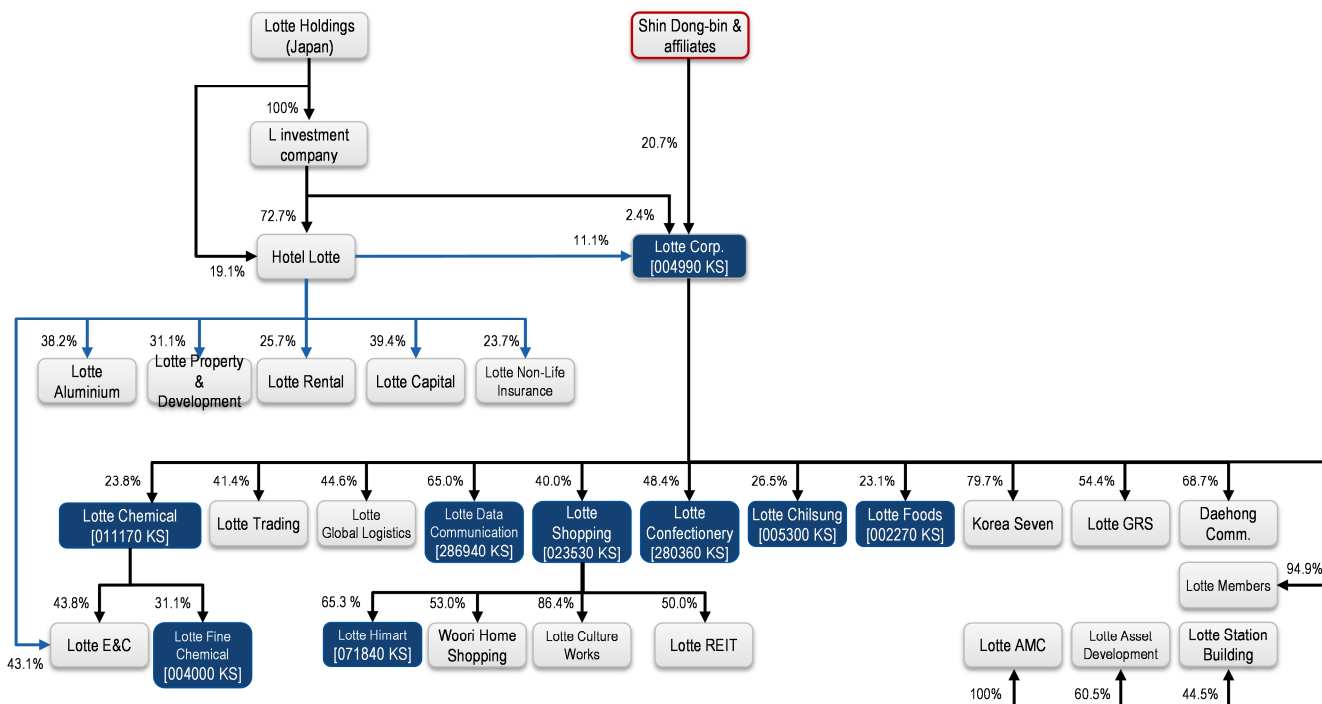
Source: WISEfn, Mirae Asset Daewoo Research

Figure 3. Case 2: Hanjin KAL's share performance



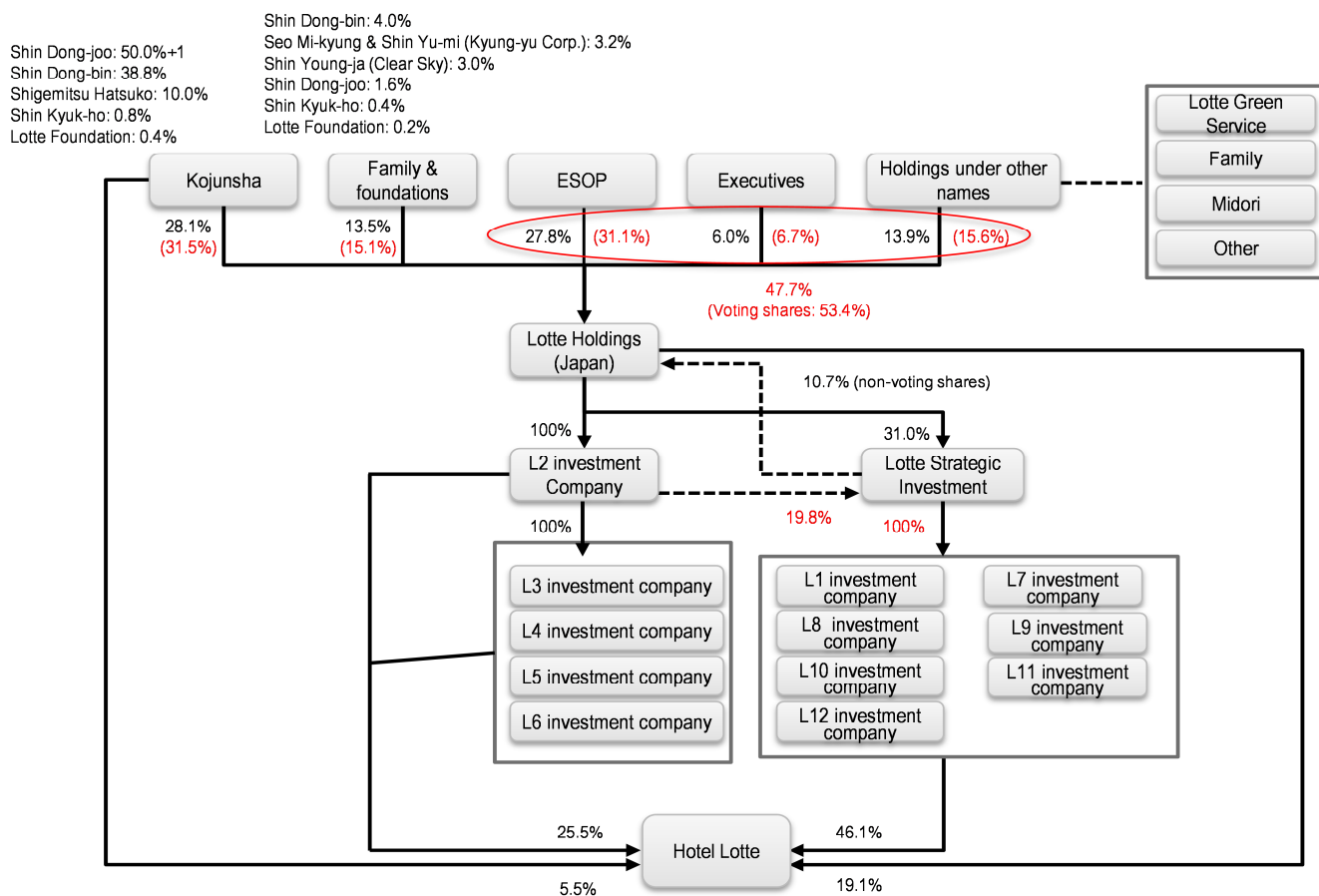
Source: WISEfn, Mirae Asset Daewoo Research

Figure 4. Lotte Group's corporate structure (current)



Source: DART, Mirae Asset Daewoo Research

**Figure 5. Lotte Group's Japanese corporate structure**



Source: DART, Mirae Asset Daewoo Research

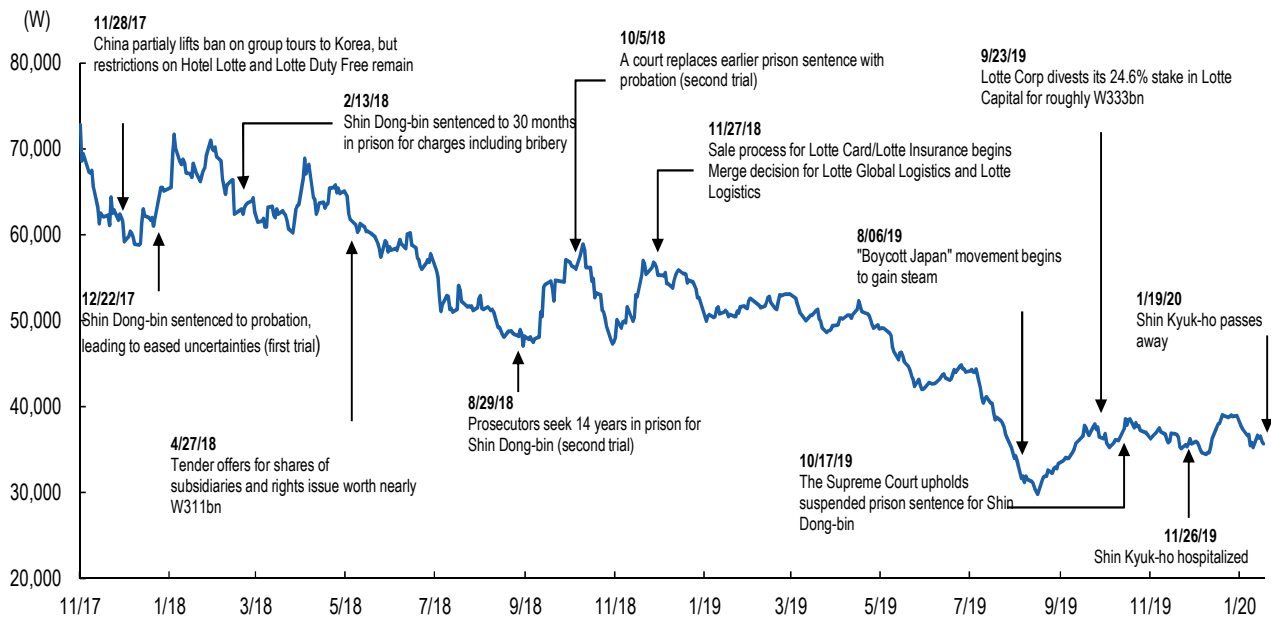
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(Wbn)

	No. of shares	Value	Stake (%)	Voting rights (%)
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Shin Dong-bin	12,283,541	438.5	11.7	17.3
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<b>Subtotal (2)</b>	<b>21,713,418</b>	<b>775.2</b>	<b>20.7</b>	<b>30.7</b>
(1) + (2)	44,647,684	1,593.9	42.6	63.1
Treasury shares	34,103,935	1,217.5	32.5	-
<b>Total</b>	<b>104,909,237</b>	<b>3,745.3</b>	<b>100.0</b>	<b>100.0</b>

Note: Based on January 17, 2020 closing prices  
Source: DART, Mirae Asset Daewoo Research

**Figure 6. Lotte Corp's share performance**



Source: WISEfn, Mirae Asset Daewoo Research

**Table 5. Valuation**

(Wbn, W, %)

	Value	Notes
<b>Operating value (1)</b>	<b>1,325</b>	
Brand royalty income	1,111	Based on royalty rate of 15bps; applied 15.0x after reflecting costs
Real estate	214	
<b>Value of investment assets (2)</b>	<b>6,038</b>	
Listed subsidiaries	4,563	Assessment method differs by company.
Unlisted subsidiaries	1,475	Based on book value and fair value
<b>Total asset value (3)=(1)+(2)</b>	<b>7,363</b>	
Net borrowings (4)	1,363	Parent basis; as of end-3Q19
Treasury stock (5)	1,234	Common shares: 32.5%; preferred shares: 28.4%
<b>NAV (6)=(3)-(4)-(5)</b>	<b>7,234</b>	
Market cap	3,802	Based on Jan 17th closing prices; common and preferred shares
Discount to NAV	47.4%	
No. of shares ('000 shares)	105,897	Common and preferred shares
NAV per share	68,311	
<b>Target price</b>	<b>52,000</b>	30% discount to per-share NAV
Current price	35,700	Based on January 17th closing price
Upside potential	45.7	

Source: Mirae Asset Daewoo Research

**Table 6. Value of investment securities**

(% Wbn, W)

	Stake	Book value	Current price	Value	Notes
<b>Listed subsidiaries</b>				<b>4,563</b>	<b>Market value</b>
Lotte Shopping	40.0	2,492	136,500	1,545	
Lotte Confectionery	48.4	547	145,000	451	
Lotte Chilsung	26.5	347	132,000	280	
Lotte Chilsung (preferred)	8.4	6	69,900	5	
Lotte Foods	23.1	201	396,500	104	
Lotte Chemical	23.8	2,228	217,500	1,772	
Lotte Data Communication	65.0	349	40,800	408	
<b>Unlisted subsidiaries</b>		<b>2,395</b>		<b>1,475</b>	
Korea Seven	79.7%	269	462	462	2019F NP; target P/E of 15x
Lotte Global Logistics	44.6%	278	278	278	
Lotte Asset Development	60.5%	147	147	147	
Lotte Station Building	44.5%	142	142	142	
Daehong Communications	68.7%	106	106	106	Book value
Lotte GRS	54.4%	34	34	34	
Other		305	305	305	

Note: Based on January 17, 2020 closing prices

Source: Mirae Asset Daewoo Research

**Figure 7. Lotte Corp.'s NAV discount trend**

Source: WISEfn, Mirae Asset Daewoo Research

**Table 7. Key listed Lotte Group companies**

(W)

Company	Ticker	Rating	TP (12M)	CP (1/17/20)
Lotte Corp.	004990 KS	Buy	52,000	35,700
Lotte Confectionery	280360 KS	-	-	145,000
Lotte Shopping	023530 KS	Trading Buy	162,000	136,500
Lotte Chilsung	005300 KS	-	-	132,000
Lotte Chemical	011170 KS	Trading Buy	280,000	217,500
Lotte Foods	002270 KS	-	-	396,500
Lotte Data Communication	286940 KS	Buy	63,000	40,800

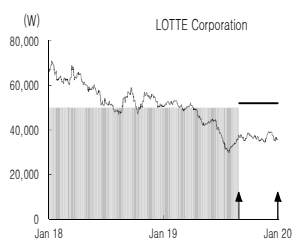
Source: DART, Mirae Asset Daewoo Research

## APPENDIX 1

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

Company (Code)	Date	Rating	Target Price	Company (Code)	Date	Rating	Target Price
Lotte Corp. (004990)	09/18/2019	Buy	52,000				



#### 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 (◆))

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	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	84.05%	9.82%	6.13%	0.00%
Investment Banking Services	76.67%	13.33%	10.00%	0.00%

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

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