

Retail

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Rating	BUY (M)
Target price	W245,000 (M)
Current price (Nov 2)	W201,800
Upside potential	21%

Market cap (Wbn)	1,324
Shares outstanding	6,562,500
Avg daily T/O (2M, Wbn)	3
Avg daily volume (2M, shrs)	16,621
52-week high (won)	237,600
52-week low (won)	169,200
Foreign ownership (%)	32.0
Major shareholders (%)	
	GS Holdings 36.1

Stock performance

(%)	1M	3M	12M
Absolute	(0.3)	3.2	(2.1)
Relative	14.8	16.8	(1.5)
Abs (US\$)	(0.5)	3.6	(2.8)

3Q18 review: Chuseok has big impact

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- GS Homeshopping's (GSHS) 3Q18 parent gross sales came to W957.2bn (+1.1 YoY, -14.1% QoQ) and OP W30.6bn (+1.0% YoY, -11.6% QoQ). OP missed consensus (W32.1bn). We attribute weak earnings to slower gross sales growth (as Chuseok fell in October this year, vs September last year) and low intangible product sales (lease, tours).
- Generally, gross sales fell or gross sales growth slowed.
- Gross sales on the TV shopping channel came to W379.6bn, with the decline in sales accelerating QoQ to -12.5% YoY (from -5.3% YoY in 2Q18). Gross sales of T-commerce came to W34.4bn, with sales growing just 2.7% YoY.
- Sales on the mobile channel remained solid at W469.0bn (+20.4% YoY). Albeit slower, growth was still robust.
- Sales on the Internet channel fell 18.7% YoY and catalog sales declined 12.8% YoY. Other gross sales fell 53.4% QoQ to W24.7bn, as accounting standards normalized.
- Gross margin improved just 1.9%p QoQ on weaker sales of low-margin intangible products (lease and tour). System operator (SO) commissions increased by about W7.0bn YoY.
- One-off profit included W5.6bn in reversals of annual discount coupons (OP) and W11.8bn in valuation gains of available-for-sale securities (venture fund, non-op profit). The reversal of annual discount coupons will likely continue into 4Q18. As the book value of a venture company that GSHS invested in directly was re-valued, the company booked W8.8bn in impairment loss on investment stocks accounted on an equity-method basis (non-op profit).

Points to watch

- Investors should focus on: 1) potential slower growth in SO commissions; 2) whether sales of intangible products stay weak; and 3) M&A deals.
- First, there are multiple moves that could reduce SO commissions. During the National Assembly's inspection of government offices, three IPTV operators stated their intention to cut commissions. In addition, home shopping companies and IPTV operators have formed an association to negotiate SO commissions. Although it is too early to expect slower growth in SO commissions, if it does happens, GSHS stands to benefit most, as the company's gross sales are growing in the high-single-digits or more.

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Quarterly earnings

(Wbn)	3Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	249	-0.5	-7.2	255	-2.1
OP	31	1.0	-11.6	32	-4.5
Pre-tax net profit	36	8.9	-29.0	36	0.3
Net profit, CI	25	0.5	-34.8	27	-9.2
OPM (%)	12.3	+0.2 %pt	-0.6 %pt	12.6	-0.3 %pt
NPM (%)	10.0	+0.1 %pt	-4.2 %pt	10.8	-0.8 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		1,065	1,052	1,052	1,113
OP		129	144	140	153
Net profit, CI		103	97	138	139
P/E (x)		11.1	14.5	9.6	9.5
P/B (x)		1.1	1.2	1.1	1.0
EV/EBITDA		2.6	4.6	4.0	3.4
ROE (%)		10.8	9.4	12.6	12.0

Source: Yuanta Securities

Gross sales of lease and tour products were weak in 3Q18. Leased product sales were weak because lease service providers have begun to sell on T-commerce channels in addition to home shopping channels. Thus, investors need to watch whether the situation continues. Leased products weigh on gross margin, as their gross sales are high. However, given their higher per hour profit than other products, a reduction in gross sales of leased products hurts OP.

Potential M&A deals also merit attention. The company holds about ₩670.0bn in cash and cash equivalents and is aggressive in M&A deals to boost the competitiveness of its main business. If its plan for a large M&A deal becomes visible, enterprise value should rise.

Need to lower expectations for higher dividend payout ratio

We believe investors need to lower their expectations for a higher dividend payout ratio, as unrealized gains account for about 30% of 1Q~3Q18 cumulative net profit. Unrealized gains are excluded from dividends. Thus, we revise down our 2018E DPS from ₩8,000 to ₩7,000. However, GSHS' dividend yield is 3.5% at the current price level, the most attractive in the retail industry.

Maintain BUY and target price of ₩245,000

Shares are now trading at a 12-month-forward EV/EBITDA (our estimate) of just 2.4x. Given the 3.5% dividend yield, **shares have sufficient support. As a result, even a small positive will likely boost shares.** We maintain BUY and our target price of ₩245,000

GS Homeshopping (028150 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	1,065	1,052	1,052	1,113	1,172
Cost of sales	94	69	232	245	259
Gross profit	971	983	819	868	913
SG&A	842	838	679	715	749
Operating profit	129	144	140	153	164
EBITDA	152	166	159	173	184
Non-op profit/loss	8	-7	45	30	35
Forex gain/loss	0	0	0	0	0
Net interest income	13	13	12	15	19
Equity-meth gain/loss	-10	-19	13	0	0
Other	4	-1	19	16	16
Net prof before income tax	136	137	184	183	198
Income tax	33	40	46	44	48
Net profit from continuing ops	103	97	138	139	151
Net profit from discontinued ops	0	0	0	0	0
Net profit	103	97	138	139	151
NP for controlling interest	103	97	138	139	151
Total comprehensive income	110	94	138	139	151
Total comprehensive income, CI	110	94	138	139	151

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Current assets	812	734	760	813	876
Cash & cash equivalents	166	186	252	303	364
Accts rec & other	50	68	48	49	50
Inventory	10	24	15	16	17
Non-current assets	543	691	701	745	789
Tangible assets	204	220	258	278	298
Investment in affiliates	135	190	214	238	262
Other non-current	163	247	191	191	191
Total assets	1,355	1,425	1,461	1,558	1,665
Current liabilities	358	336	345	345	345
Accts payable & other	264	229	247	247	247
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	0	0	0	0	0
Non-current liabilities	6	5	4	4	4
LT financial liabilities	0	0	0	0	0
Debentures	0	0	0	0	0
Total liabilities	364	342	348	348	349
Equity, controlling interest	992	1,083	1,113	1,210	1,316
Paid-in capital	33	33	33	33	33
Capital surplus	80	111	111	111	111
Retained earnings	913	967	1,064	1,161	1,266
Equity, non-controlling interest	0	0	0	0	0
Total equity	992	1,083	1,113	1,210	1,316
Net debt	-743	-634	-687	-739	-800
Total debt	0	0	0	0	0

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	191	75	106	84	98
Net profit	103	97	138	139	151
Depreciation & amortization	12	11	11	12	12
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	46	-62	-13	-42	-41
Other	30	28	-30	-25	-24
Investing cash flow	-156	-62	15	-64	-64
Investment	-16	-120	-18	-24	-24
Inc in tangible assets	-26	-32	-48	-32	-32
Dec in tangible assets	0	0	0	0	0
Other	-113	90	81	-8	-8
Financing cash flow	-51	7	-128	-42	-45
Inc (dec) in ST fin liab	0	0	0	0	0
Inc (dec) in LT fin liab	0	0	0	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-32	-43	-41	-42	-45
Other	-19	50	-87	0	0
Other cash flow	0	0	73	74	72
Inc (dec) in cash & equivalents	-15	20	66	51	61
Beginning cash & equivalents	181	166	186	252	303
Ending cash & equivalents	166	186	252	303	364
NOPLAT	129	144	140	153	164
FCF	141	29	63	62	72

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

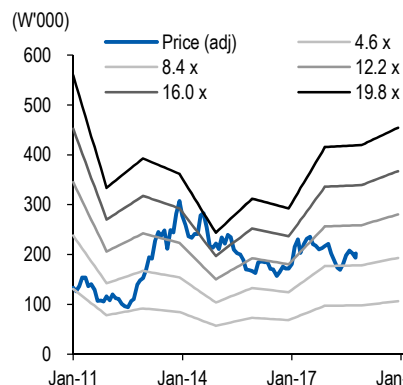
Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	15,770	14,782	21,011	21,204	22,967
BPS (won)	162,566	171,643	184,457	200,576	218,113
EBITDA/shr (won)	23,172	25,223	24,207	26,293	28,054
SPS (won)	162,309	160,253	160,230	169,626	178,554
DPS (won)	7,000	6,500	7,000	7,500	8,000
P/E (x)	11.1	14.5	9.6	9.5	8.8
P/B (x)	1.1	1.2	1.1	1.0	0.9
EV/EBITDA (x)	2.6	4.6	4.0	3.4	2.9
P/S (x)	1.1	1.3	1.3	1.2	1.1

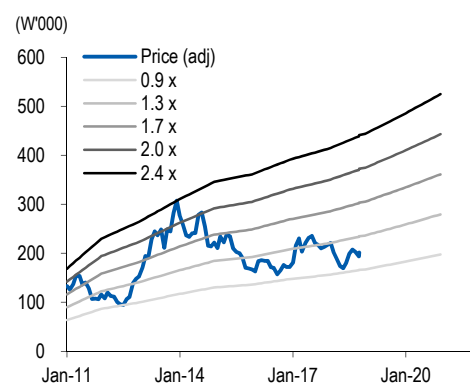
Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	-2.4	-1.3	0.0	5.9	5.3
Operating profit (%YoY)	14.4	12.3	-3.3	9.2	7.2
Net profit, CI (%YoY)	28.1	-6.3	42.1	0.9	8.3
Gross margin (%)	91.1	93.4	77.9	77.9	77.9
Operating margin (%)	12.1	13.7	13.3	13.7	14.0
Net margin, CI (%)	9.7	9.2	13.1	12.5	12.9
EBITDA margin (%)	14.3	15.7	15.1	15.5	15.7
ROIC (%)	-402.7	-419.9	1,588.4	655.1	318.0
ROA (%)	8.0	7.0	9.6	9.2	9.4
ROE (%)	10.8	9.4	12.6	12.0	11.9
Debt-to-equity (%)	36.7	31.5	31.3	28.8	26.5
Net debt-to-equity (%)	-74.9	-58.5	-61.8	-61.0	-60.8
OP/financing cost (x)	0.0	0.0	0.0	0.0	0.0

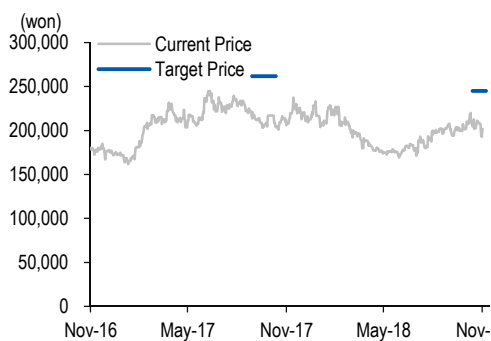
P/E band chart



P/B band chart



GS Homeshopping (028150 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/11/05	BUY	245,000	1 yr		
2018/10/15	BUY	245,000	1 yr		
	Analyst changed				
2018/01/04	After 1yr		1 yr	-25.99	-12.71
2017/08/30	BUY	262,000	1 yr	-21.60	-6.41
	Analyst changed				
2017/01/04	After 1yr		1 yr		
2016/01/04	BUY	230,000	1 yr	-24.15	-14.35

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.7
BUY	83.5
HOLD	14.2
SELL	0.6
Total	100.0

Note: As of Nov 1

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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