

Earnings solid, global expansion gaining steam

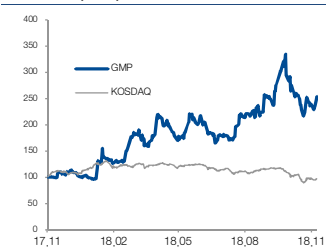
Share price (KRW, Nov 16)	9,970
Upside (%)	70.5
Market cap (KRW bn)	271
Shares outstanding ('000)	27,200
Paid-in capital (KRW bn)/ Face value (KRW)	14/500
52-week high/low (KRW)	13,150/3,770
60-day avg. daily T/O (KRW bn)	9
Foreign ownership (%)	4.57
Major shareholders (%)	Jung Chul and 2 persons 16.97

Price performance	1M	3M	6M
Absolute (%)	-1.3	17.3	46.4
Relative (%p)	4.6	29.4	80.4

K-IFRS, consolidated

(KRW)	18F EPS	19F EPS	TP
Previous	310	698	17,000
Revised	307	714	17,000
Consensus	309	699	17,000
Difference	-0.6%	2.2%	0.0%

12-month price performance



Source: WiseFn, Hyundai Motor Securities

1) Investment highlights

- We maintain BUY and our target price of KRW17,000 on GMP.
- The CICA line's sales remain solid, and the capacity growth and launch of the revamped CICA line should keep 4Q18 earnings on a growth track.
- The global launch of VT x BTS should provide strong momentum for BTS collaboration products.
- GB301, an Alzheimer's disease drug based on T regulatory cells, is scheduled to finish preclinical trials in Korea in November. It is slated to enter phase 1 and 2a trials simultaneously in Australia in December.

2) Major issues and earnings outlook

- VT Cosmetics finished expanding capacity at end-October, in order to roll out the revamped CICA line in December. GMP has a distribution partner in China (Taobao's official partner) to prepare for the implementation of the e-commerce law in China. Despite being a third-generation Korean cosmetics company, GMP is moving fast to keep up with changing trends.
- The VT x BTS line, which is more popular overseas, is being distributed via multiple vendors, notably Forever21 in the US. In Japan, talks are underway to make it available at Laox (Japan's biggest DFS) as well as drug stores, home shopping channels, and various other retailers. It is slated to enter the Chinese market, and deals have been struck with several European countries. In Southeast Asia, exclusive deals have been made in Taiwan, Indonesia, Singapore, Thailand, Malaysia, the Philippines, and Vietnam. With additional demand in the Middle East and Latin America, the number of countries that The VT x BTS line is exported to is likely to increase further.
- As for the BT21 line, domestic consumer response has been better than expected, with several items already sold out. We believe BT21 could be another growth catalyst given its high global awareness.
- GMP Bio: GB301 is slated to finish preclinical trials in Korea this month. It is scheduled to begin phase 1 and 2a trials in Australia in December by Korea's C&R Research and US-based Premier Research.
- 3Q18 results were in line with consensus expectations, with KRW31.2bn in sales (+71% YoY) and KRW5.2bn in operating profit (+76% YoY). The global expansion of the VT x BTS line and the additional momentum to come from BT21 mean 4Q18 earnings will remain on the growth trajectory.

3) Share price outlook and valuation

- Shares have been battered by extreme stock market volatility and severe short selling of the cosmetics sector. We expect the stock to rebound, however, given the solid earnings growth seen in 3Q18 and other favorable factors such as VT Cosmetics' capacity expansion, the launch of the revamped CICA line, and growing worldwide sales of BTS collaboration products. Of all the BTS beneficiaries, the one that has the clearest prospect of robust earnings growth is GMP.

Earnings forecasts and valuations

	Sales (KRW bn)	OP (KRW bn)	NP (KRW bn)	EBITDA (KRW bn)	EPS (KRW)	Growth (%YoY)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Div. yield (%)
2016	41.1	-8.7	-14.6	-6.6	-1,089	CR	N/A	2.6	N/A	-58.5	0.0
2017	69.9	-6.7	-14.5	-4.8	-749	CR	N/A	3.3	N/A	-48.9	0.0
2018F	119.1	14.8	7.7	16.1	307	TR	32.5	4.8	17.1	18.9	0.0
2019F	194.8	40.2	19.4	41.4	714	132.7	14.0	3.5	6.1	28.8	0.0
2020F	220.2	46.2	22.3	47.4	820	14.9	12.2	2.7	4.9	24.7	0.0

Note: K-IFRS, consolidated

Fig 1. 3Q18 earnings review

(KRW bn)	Earnings			Growth		HMS estimates		Consensus	
	3Q18P	3Q17	2Q18	(%YoY)	(%QoQ)	3Q18F	%difference	3Q18F	%difference
Sales	31.2	18.2	26.2	71.2	19.0	33.1	-5.9	31.9	-2.3
Operating profit	5.2	0.6	3.2	768.5	61.6	5.0	3.4	5.1	1.4
OPM (%)	16.6	3.3	12.2			15.1		16.0	
Pretax profit	5.6	0.6	4.0	789.7	41.3	5.7	-1.1	5.9	-4.5
Net profit (CI)	2.5	0.2	2.0	941.0	27.	2.7	-7.1	1.9	32.0

Note: K-IFRS, consolidated

Source: Company data, FnGuide, Hyundai Motor Securities

Fig 2. Quarterly earnings trends

	1Q18	2Q18	3Q18	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	2017	2018F	2019F
Sales	18.1	26.2	31.2	43.6	48.9	50.2	45.9	49.8	69.9	119.1	194.8
VT	7.9	16.2	18.4	31.6	35.9	36.2	30.9	33.8	31.0	4.0	136.8
Parent	10.3	11.6	12.8	18.0	21.8	23.3	23.2	24.4	40.2	52.7	92.7
Etc.	0.2	-	-	-	-	-	-	-	-	0.2	-
OP	-0.3	3.2	5.2	6.8	10.3	10.8	9.2	10.0	-6.7	14.8	40.2
OPM	-1.9	12.2	16.6	15.5	21.0	21.5	20.0	20.0	-9.6	12.4	20.6
NP	-0.6	3.5	4.7	5.5	7.8	8.2	6.9	7.5	-13.0	13.1	31.6
NPM	-3.2	13.5	14.9	12.7	15.9	16.3	15.1	15.1	-18.6	11.0	16.1

Note: K-IFRS, consolidated

Source: Hyundai Motor Securities

Fig 3. Earnings revisions

(KRW bn)	Revised		Previous		%change	
	2018F	2019F	2018F	2019F	2018F	2019F
Sales	119.1	194.8	121.0	194.8	-1.6	0.0
Operating profit	14.8	40.2	14.6	40.2	1.4	0.0
Pretax profit	16.8	40.6	16.6	39.6	1.4	2.4
Net profit	13.4	31.6	13.1	30.9	2.1	2.4

Note: K-IFRS, consolidated

Source: Hyundai Motor Securities

Fig 4. Forever 21 in the US



Source: Company data, Hyundai Motor Securities

Fig 5. Pop-up store at a Westfield Mall



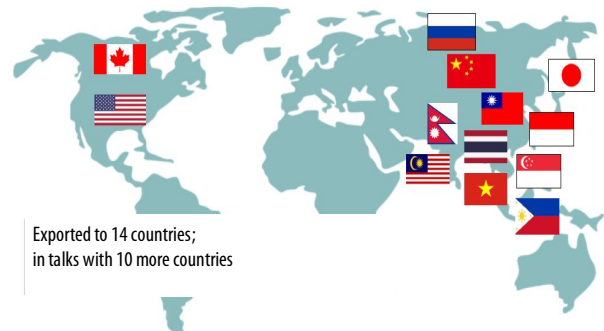
Source: Company data, Hyundai Motor Securities

Fig 6. Japan's largest DFS LAOX



Source: Company data, Hyundai Motor Securities

Fig 7. BTS collaboration's global contracts



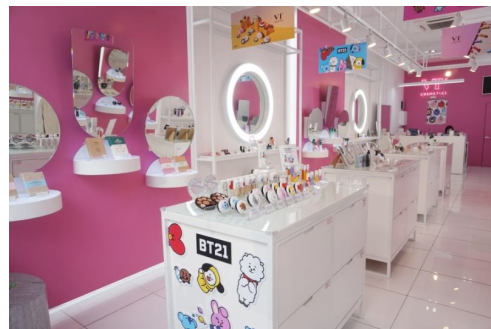
Source: Company data, Hyundai Motor Securities

Fig 8. BT21 line



Source: Company data, Hyundai Motor Securities

Fig 9. BT21 offline sales (Gangnam branch)



Source: Naver, Hyundai Motor Securities

COMPANY NOTE

Income statement

(KRW bn)	2016	2017	2018F	2019F	2020F
Sales	41	70	119	195	220
Change (%)	-12.5	69.8	70.4	63.6	13.0
Cost of goods sold	41	56	73	111	123
% of sales	99.0	80.0	61.3	57.0	56.0
Gross profit	0	14	46	84	97
Gross margin (%)	1.0	20.0	38.7	43.0	44.0
Change (%)	TB	3,415.5	230.3	81.9	15.7
SG&A expenses	9	21	31	44	51
% of sales	22.1	29.5	26.2	22.4	23.0
EBITDA	-7	-5	16	41	47
EBITDA margin (%)	-16.0	-6.8	13.5	21.3	21.5
Change (%)	CR	CR	TR	157.5	14.5
Operating profit	-9	-7	15	40	46
Operating margin (%)	-21.1	-9.6	12.4	20.6	21.0
Change (%)	CR	CR	TR	171.6	15.0
Non-operating profit	-6	-6	2	0	0
Interest income	0	0	0	0	0
Interest expenses	3	2	1	0	0
Other non-operating income	-2	-4	3	0	0
Subsidiaries/affiliate income	0	0	0	0	0
Pretax profit from cont ops	-15	-13	17	41	47
Pretax margin (%)	-35.3	-17.9	14.1	20.8	21.2
Change (%)	CR	CR	TR	140.8	14.9
Income tax	0	1	3	9	10
Profit from continuing ops	-15	-13	13	32	36
Profit from discontinuing ops	0	0	0	0	0
Net profit	-15	-13	13	32	36
Net margin (%)	-35.4	-18.6	11.2	16.2	16.5
Change (%)	CR	CR	RB	136.6	14.9
NP from controlling interest	-15	-14	8	19	22
NP from non-controlling interest	0	1	6	12	14
Other comprehensive income	0	0	0	0	0
Total comprehensive income	-15	-13	13	32	36

Cash flow

(KRW bn)	2016	2017	2018F	2019F	2020F
Operating cash flow	0	-6	5	31	35
Net profit	-15	-13	13	32	36
Depreciation on tangible assets	2	1	1	1	1
Amortization on intangible assets	0	1	0	0	0
FX-related profit	0	0	0	0	0
Dec (inc) in working capital	6	-4	-11	-2	-2
Others	7	9	1	0	0
Investing cash flow	-10	1	-3	-1	-1
Dec (inc) in investment assets	0	0	0	0	0
Decrease in tangible assets	0	2	0	0	0
Increase in tangible assets	-1	-2	-1	-1	-1
Others	-10	1	-2	0	0
Financing cash flow	12	13	21	1	-2
Increase (decrease) in debt	-30	2	16	-1	-1
Increase (decrease) in bond	5	22	-19	-1	-2
Increase in capital	17	43	6	3	1
Dividend	0	0	0	0	0
Others	19	-53	18	0	0
Other cash flow	0	0	0	0	0
Increase (decrease) in cash	2	9	22	31	32
Beginning cash	0	2	11	33	64
Ending cash	2	11	33	64	96

Note: K-IFRS, consolidated

Balance sheet

(KRW bn)	2016	2017	2018F	2019F	2020F
Current assets	23	32	83	120	160
Cash and cash equivalents	2	11	33	64	96
Short-term investment assets	1	1	2	2	2
Accounts receivable	5	9	20	23	26
Inventory assets	15	11	25	28	32
Other current assets	0	1	3	3	4
Non-current assets	39	42	45	45	45
Tangible assets	27	29	29	28	28
Intangible assets	3	8	13	13	13
Investment assets	0	0	0	0	0
Other non-current assets	8	5	3	3	3
Other financial assets	0	0	0	0	0
Total assets	62	74	127	165	204
Current liabilities	16	27	25	26	26
Short-term debt	2	2	7	6	5
Accounts payable	4	4	8	9	11
Current portion of long-term	7	0	0	0	0
Other current debt	2	22	10	10	10
Non-current liabilities	13	10	28	30	32
Bonds	5	4	5	5	5
Long-term debt	0	0	9	9	9
LT financial debt (incl. lease)	0	0	0	0	0
Other non-current debt	8	6	14	16	19
Other financial liabilities	0	0	0	0	0
Total liabilities	29	38	53	56	58
Owners of parent equity	33	26	56	79	102
Paid-in capital	9	11	14	14	14
Capital surplus	39	32	35	38	39
Capital adjustment, etc.	0	-3	-3	-3	-3
Other accumulat earnings and comp	0	0	0	0	0
Retained earnings	-15	-15	10	29	52
Non-controlling interest	0	10	18	30	44
Total equity	33	36	74	109	146

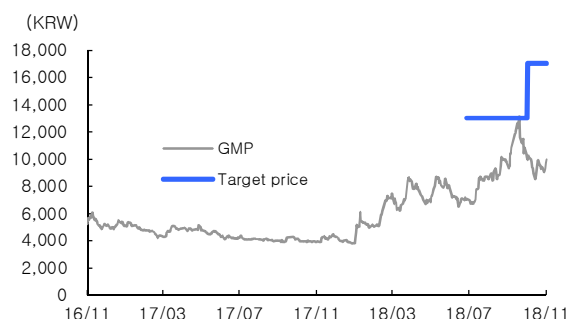
Key financial data

(KRW, x, %)	2016	2017	2018F	2019F	2020F
EPS (based on net profit)	-1,089	-674	529	1,163	1,336
EPS (based on parent net)	-1,089	-749	307	714	820
BPS (based on total equity)	1,917	1,681	2,727	4,000	5,372
BPS (based on owners of parent)	1,917	1,197	2,063	2,887	3,744
DPS	0	0	0	0	0
P/E (based on net profit)	N/A	N/A	18.8	8.6	7.5
P/E (based on parent net profit)	N/A	N/A	32.5	14.0	12.2
P/B (based on total equity)	2.6	2.4	3.7	2.5	1.9
P/B (based on owners of parent)	2.6	3.3	4.8	3.5	2.7
EV/EBITDA (reported)	N/A	N/A	17.1	6.1	4.9
Dividend yield	0.0	0.0	0.0	0.0	0.0
Growth (%)					
EPS (based on net profit)	CR	CR	-178.6	119.6	14.9
EPS (based on parent net)	CR	CR	-141.0	132.7	14.9
Profitability (%)					
ROE (based on net profit)	-58.5	-37.4	24.2	34.6	28.5
ROE (based on parent net)	-58.5	-48.9	18.9	28.8	24.7
ROA	-23.4	-19.1	13.3	21.6	19.7
Stability (%)					
Total liabilities/equity	85.8	105.2	71.9	51.6	39.9
Net debt/equity	34.7	34.3	Net cash	Net cash	Net cash
Interest coverage	N/A	N/A	19.5	34.9	43.2

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
18/08/24	BUY	13,000	-20.6	1.2
18/10/18	BUY	17,000	-44.6	-40.3
18/11/19	BUY	17,000	-	-

Two-year price chart



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- SELL: Excess return of -15%p or less

Stock ratings distribution (Oct 1, 2017-Sep 30, 2018)

Rating	Count	% of rating category
BUY	145	90.06
MARKETPERFORM	16	9.94
SELL	0	0.0

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