

Continuing to dominate domestic welfare market

Thanks to recent amendments to the Occupational Safety and Health Act, earnings at Ezwelfare's psychological consulting subsidiary Ezwellness should climb in 2019. Backed by the expansion of the government's welfare policy and the securing of new clients, Ezwelfare's entrusted welfare budget is likely to grow 20% y-y again in 2019. In light of its prospects for ongoing strong growth, we believe that Ezwelfare is significantly undervalued.

Entrusted welfare budget growing 20% pa

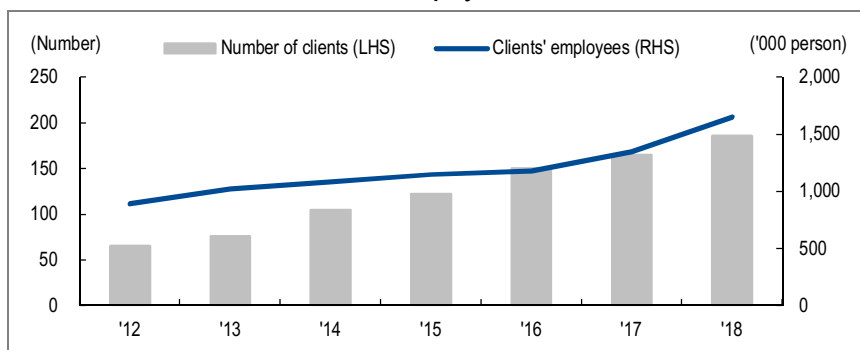
In 2018, Ezwelfare controlled an entrusted employee welfare budget of W1.2tn (+20% y-y), showing strengthening dominance as an oligopoly (50% M/S) in the domestic outsourced employee benefit services market. Backed by rising public-sector employment and the acquisition of new clients, the company's entrusted welfare budget should continue expanding in 2019 to W1.4tn, generating sales of W81.4bn (+11.4% y-y). Even excluding one-off e-bus sales of W5.4bn (reflected in 1H18), Ezwelfare's welfare-related business is likely to record sales growth of more than 20% y-y this year.

Welfare business enjoying strong expansion

Boasting 1.2mn products, Ezwelfare's high-margin online sales platform enjoyed a total transaction value of W330bn in 2018, showing 3%p y-y growth and accounting for 28% of total transaction value. Helped by its robust online competitiveness and anticipated improvements to its low-end product lineup, we project that online shopping will generate over 30% of sales in 2019. Given both this expected hike in online sales and the reflection of one-off expenses in 2H18, we forecast 2019 OP of W9.4bn (+34.6% y-y; OPM of 11.6%).

Thanks to the Oct 2018 amendments to the Occupational Safety and Health Act, subsidiary Ezwellness (operates outsourced psychological counseling services) is enjoying healthy new order expansion. Based on its partnership with Optum (the global number-one welfare player), Ezwellness has secured 16 new clients (including public institutions and large corporations), driving expectations for 2019 OP in excess of W1bn. While earnings are improving across its various welfare businesses, Ezwelfare's 2019E P/E stands at just 12.0x, significantly undervalued relative to global peers Edenred (31.4x) and Benefit One (69.0x).

Ezwelfare's clients and their number of employees



Source: Ezwelfare, NH I&S Research Center

Company Comment | Apr 17, 2019

Not Rated

CP ('19/04/16) **W9,090**

Sector	Special Tech
Kospi/Kosdaq	2,248.63 / 765.02
Market cap (common)	US\$87.16mn
Outstanding shares (common)	10.9mn
52W high ('18/05/11)	W12,800
low ('18/10/29)	W6,600
Average trading value (60D)	US\$0.45mn
Dividend yield (2019E)	0.66%
Foreign ownership	14.1%

Major shareholders
S.Y. Kim and 6 others 24.4%

Share perf	3M	6M	12M
Absolute (%)	19.6	10.9	-28.1
Relative (%)p	8.4	6.0	-15.8

	2018	2019E	2020F	2021F
Sales	73.1	81.4	94.6	111.0
Chg	25.2	11.4	16.3	17.3
OP	7.0	9.4	12.3	16.6
Chg	61.7	34.6	30.4	35.3
OPM	9.6	11.6	13.0	15.0
NP	2.0	8.2	10.8	14.8
EPS	197	756	994	1,354
Chg	-12.4	284.3	31.3	36.3
P/E	38.9	12.0	9.1	6.7
P/B	2.8	2.2	1.8	1.4
EV/EBITDA	8.2	6.1	4.0	2.2
ROE	7.4	22.4	21.5	23.6
Debt/equity	194.5	136.7	132.9	127.0
Net debt	-6.4	-29.7	-39.8	-54.0

Unit: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, and ROE based on NP (excl minority interests)

Note 3: Reflective of CB conversion (1,980,198 shares)

Source: NH I&S Research Center estimates



Hyundong Lee, Analyst
822)768-7423, hyundong.lee@nhqv.com

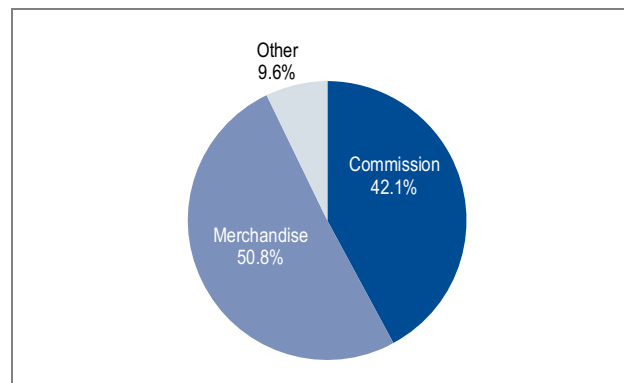
Jaeho Jang, RA
822)768-7083, jangjaeho@nhqv.com

Company overview

- Listed on the Kosdaq in 2013, Ezwelfare possesses as its clients large corporate groups (eg, Samsung, LG, and Hanwha), government agencies (eg, the Korean National Police Agency), and state-run corporations (eg, Seoul Metro), and dominates the domestic outsourced employee benefit service market (50% M/S).
- Having worked as an overseas marketing manager at Shinsegae Chosun Hotel, SY Kim (Ezwelfare's largest shareholder) established Ezwelfare by benchmarking the corporate welfare systems at foreign companies. Later, in Mar 2017, the company inaugurated HC Cho as a CEO.
- Having Ezwelness and Ezwelintouch as subsidiaries, Ezwelfare provides a full range of welfare content and services (aimed at facilitating employee welfare), including healthcare information, mental healthcare services, and travel services.
- Having converted 1mn of the 1.98mn CB shares (worth W11bn) issued in Jul 2017, the firm has eliminated overhang concerns.

Sales breakdown

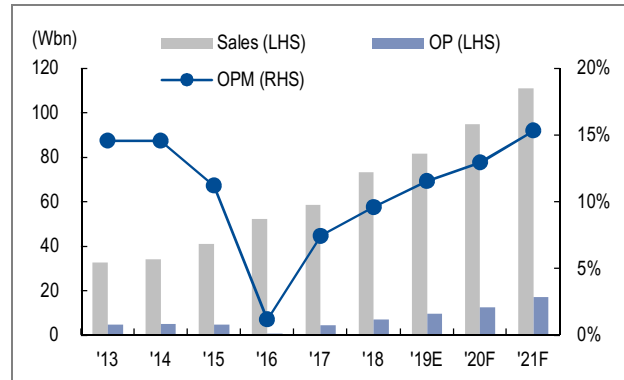
- As of 2018, Ezwelfare's sales broke down as: service-related fees (42.1%); merchandise sales (50.8%); and other (9.6%)
- In detail, 1) service-related fees are made up of commission as a portion of sales generated from the offering of travel and other services/content; 2) merchandise sales include sales of Ezwelfare's directly procured products; 3) other revenue is composed of rental revenue + Ezwelness (consolidated subsidiary)'s total healthcare service revenue + Ezwelintouch (consolidated subsidiary)'s travel service revenue



Note: As of 2018; Source: Ezwelfare, NH I&S Research Center

Earnings

- With all loss factors (eg, SG&A expenses and written-off accounts receivable related to China-bound cosmetics exports) having been reflected in 2017, the firm's OP is improving on the back of increasing transaction value at the employee welfare platform business
- Psychological consulting subsidiary Ezwelness booked an operating loss of W400mn in 2017. In 2018, thanks to the implementation of the amended Occupational Safety and Health Act in October, the firm secured additional orders and posted OP of W130mn. In 2019, the company is expected to book OP of above W1bn, backed by expanding new orders.



Source: Ezwelfare, NH I&S Research Center estimates

Share performance and major events



Source: DataGuide, NH I&S Research Center

NH Investment & Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Apr 12, 2019).

- NH I&S' stock rating distribution

Buy	Hold	Sell
77.7%	22.3%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

Compliance notice

- NH I&S does not have a stake greater than or equal to 1% in Ezwelfare as of the preparation date.
- NH I&S has not provided this material to any institutional investor or other third party in advance.
- The analyst and his/her spouse do not own any securities of Ezwelfare as of the preparation date.
- Ezwelfare is not under coverage at NH I&S. Thus, NH I&S does not present a rating and target price on the counter. This material is for reference purpose only.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

Disclosures

The research is based on current public information that NH I&S considers reliable, but NH I&S does not represent it as accurate or complete and it should not be relied on as such. Furthermore, the research does not take into account particular investment objectives, financial situations or individual client needs, and NH I&S is in no way legally responsible for future returns or loss of original capital. All materials in this report are the intellectual property of NH I&S. Copying, distributing, transmitting, transforming or lending of this material without NH I&S' consent is prohibited.