

Regional Company Focus

Hotel Shilla

Bloomberg: 008770 KS, Reuters: 008770.KS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Jun 2018

BUY, KRW126,500 KOSPI: 2,470.2
(Closing price as of 11/6/18)

Price Target 12-mth: KRW160,000

Reason for Report: Initiating coverage

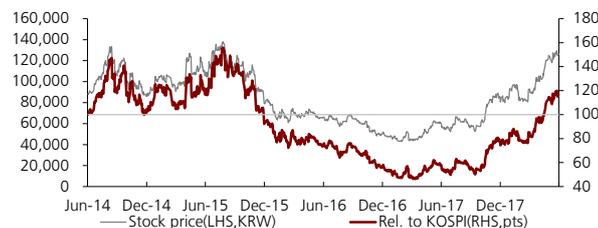
Potential catalyst: Changing consumption trends in China

Where we differ: We are more optimistic than the market on increasing cosmetics sales from Chinese duty-free shoppers

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (KRW bn)	2017A	2018F	2019F	2020F
Revenue	4,011.5	4,932.3	5,720.3	5,855.0
EBITDA	144.5	285.9	361.0	383.2
Operating profit	73.1	213.6	290.3	313.0
Pre-tax Profit	44.7	198.7	277.5	306.3
Net Profit	25.3	150.8	210.3	232.2
Net Pft (Pre Ex.)	25.3	150.8	210.3	232.2
Net Pft Attributable to Controlling Interest	25.3	150.8	210.3	232.1
EPS (KRW)	644	3,843	5,358	5,914
EPS Pre Ex. (KRW)	644	3,836	5,352	5,908
EPS Gth (%)	-9.1	496.5	39.4	10.4
EPS Gth Pre Ex (%)	-9.1	495.4	39.5	10.4
Diluted EPS (KRW)	644	3,835	5,351	5,907
Net DPS (KRW)	350	350	350	350
BV Per Share (KRW)	15,593	19,232	24,374	29,997
PE (X)	131.8	32.9	23.6	21.4
PE Pre Ex. (X)	131.8	33.0	23.6	21.4
P/Cash Flow (X)	21.8	54.4	141.5	16.5
EV/EBITDA (X)	26.0	18.3	14.0	12.7
Net Div Yield (%)	0.4	0.3	0.3	0.3
P/Book Value (X)	5.4	6.6	5.2	4.2
Net Debt/Equity (X)	0.6	0.3	0.1	CASH
ROE (%)	3.8	20.5	23.3	20.9
Earnings Rev (%)		0.0	0.0	0.0
Consensus EPS (KRW):		3,334	4,495	5,914
Other Broker Recs:		B : 22	S : 1	H : 5

ICB Industry: Retail – Discretionary

ICB Sector: Consumer Discretionary

Principal Business: Hotel Shilla Co., Ltd operates and manages hotels in Seoul and Jeju. The company also operates duty free shops, bakeries, restaurants, and catering and laundry services.

Source of all data on this page: Bloomberg Finance L.P., Company, DBS Bank

Riding on China's duty-free cosmetics boom

- Increasing sales from China's Weishangs to drive earnings growth
- Commissions to travel agencies to drop on inbound Chinese tourists growth
- Initiating coverage with BUY, KRW160,000 TP

Growth potential, less earnings volatility. We initiate our coverage on Hotel Shilla with a BUY call and KRW160,000 TP, applying a NOPLAT target multiple of 33x to its duty-free (DF) business and 27x to its hotel business. We believe the company deserves a valuation premium due to i) its competitor Dufry posting weaker margins despite revenue growth via mergers & acquisitions (M&As) and; ii) global cosmetics players that are seeing slower earnings growth amid new brand launches. Stronger earnings momentum and lower volatility driven by China's Weishangs' (micro businesses selling goods/services through WeChat) structural growth should also justify its valuation premium.

Beneficiary from China's growing cosmetics market. According to the Industry Information Network of China, the country's cosmetics consumption is projected to grow at a CAGR of 8% in 2018-2022 on the back of increased shopping via social media, new brand launches and stronger purchasing power. For consumers like the Post-80s and Post-90s, Korean DF shops are an important purchase channel. Korean DFs' cosmetics sales are higher than Dufry and DFS', and can offer more competitive prices than its Chinese peers due to economies-of-scale. Weishangs that have driven Korean DF shop sales are growing. Given that 65% of Weishangs' customers are from Tier 3 or smaller cities and 74% are aged 18-30, potential sales cannibalisation between Weishangs and inbound Chinese tourists (arrivals expected to recover in 2H18) seems limited. Based on this, we estimate Hotel Shilla's FY18/19F revenue growth to be 23%/16%.

Reduced commissions, higher profits. Although Shinsegae and Hyundai Department Stores are scheduled to open new DF shops in 2H18, commissions to group-tour agencies are likely to moderate, due to: i) the wider gap in bargaining power among DF shops compared to 2016; ii) higher sales contribution from Weishangs; and iii) the proposed guidance by the Korea Association of Travel Agents to restrict group tour agencies' excessive reliance on commissions. As such, commission rate is likely to remain at c.11%.

At A Glance

Issued Capital (m shrs)	39.25
Mkt. Cap (KRWbn/US\$m)	4,965/4,619
Major Shareholders	
Samsung Life Insurance and 4 others (%)	17.2
Free Float (%)	76.0
Avg. Daily Vol. ('000)	315



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Hotel Shilla: Overview

Hotel Shilla was established in 1973 and went public in 1991. The company's core businesses include TR (Travel retail, duty-free retailing) and hotel & leisure businesses.

The TR division operates duty-free (DF) shops in Korean cities (Seoul, Jeju), Incheon and Jeju International Airports, Singapore Changi International Airport (opened in 2015), Hong Kong International Airport (opened in 2017), Macau International Airport, and overseas cities (Phuket, Tokyo). It has also been operating the Shilla I'PARK Duty Free Shop at Yongsan I'PARK Mall since 2015 after establishing HDC Shilla, a joint venture with the Hyundai Development Company.

In 2017, Hotel Shilla held the second largest share (26.8%) in the Korean DF retail market. Its market share declined by 1ppt y-o-y, due to the entry of new players such as Shinsegae (+5ppts y-o-y) and Hanwha. However, this was smaller than the 6.7ppts drop (y-o-y) by Lotte Duty Free.

The hotel & leisure division operates Shilla Seoul Hotel (opened in 1979) and Shilla Jeju Hotels & Resorts (opened in 1990). It outsourced the operation of 11 Shilla Stay hotels (premium business hotels) as of end-2017.

It is also engaged in Leports (including luxury fitness club, VANTT), Corporate Fitness Centre (CFC) and Business Travel Management (BTM).

As of end-1Q18, Samsung Life Insurance was the largest shareholder of Hotel Shilla with a 7.8% stake, with its affiliates holding a total 17.4% stake (Samsung Electronics 5.1%, Samsung Securities 3.1%, etc.). With a market cap of KRW4.96tr (as of 11 June 2018), Hotel Shilla is under the retail sector in the KOSPI.

Hotel Shilla: Financials

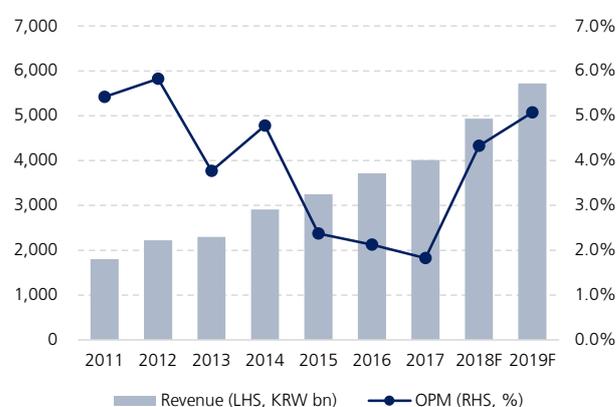
The company's TR revenue rose sharply at a CAGR of 18.5% during 2008-2016, due to the opening of its DF shop in Incheon International Airport and increased inbound Chinese tourists.

In 2017, inbound traffic from China plummeted on the Chinese government's retaliation against the deployment of the US Army's anti-ballistic missile system Terminal High-Altitude Area Defence (THAAD) in South Korea. This incident drove TR revenue down by 0.8%.

The company's operating margin narrowed from 4.8% in 2014 to 2.2% in 2016, due to the overseas expansion of DF shops (Singapore, Macau, etc.) since 2013. It further declined to 1.8% in 2017, owing to: i) greater sales contribution from Daigongs (individual merchants from China); ii) entry of new players; and iii) increased rental expenses of airport DF shops.

The company reported an earnings turnaround in 4Q17, driven by the operating leverage from increased Daigong-related sales amid easing competition among Korean DF shops.

The company's earnings should continue to improve until 2019, backed by a likely recovery in Chinese inbound traffic from 2H18.



Source: Hotel Shilla, DBS Bank

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Hotel Shilla

Hotel Shilla: Business breakdown

In 2017, Hotel Shilla generated 88.2% of its revenue from its TR business (54.9% in inner-cities, 33.4% in airports) and 11.8% from its hotel & leisure business.

The TR division has high earnings volatility, with high sales contribution from inbound Chinese tourists ("Youke") and shuttle traders ("Daigongs"). Cosmetics account for over 50% of revenue for this division.



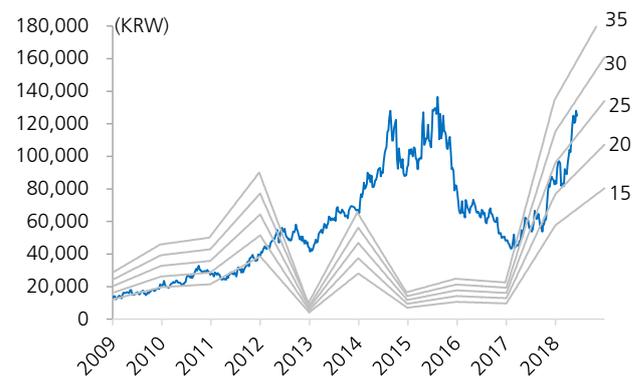
Source: Hotel Shilla, DBS Bank

Hotel Shilla: Share price trend

Hotel Shilla's share price had been on a downtrend since 2015, due to sluggish earnings, increased investment costs, and China's THAAD retaliation. However, it has recovered rapidly with earnings turning around since 2H17.

The company is currently trading at a 12-month forward PE of 29x, which is higher than global peer Dufry's (13x) and similar to the average PE of cosmetics companies (30x).

We think such valuation premium is justified, in view of stronger earnings growth potential than global peers and decreasing earnings volatility.



Source: Hotel Shilla, DBS Bank

Earnings forecasts

	2015	2016	2017	2018F	2019F	2020F	2021F
	Unit: KRW bn, %						
Revenue	3,252	3,715	4,011	4,932	5,720	5,855	5,993
OP	77	79	73	214	290	313	325
EBITDA	151	153	145	286	361	383	395
NP	18	28	25	151	210	232	243
Total assets	2,177	2,041	2,250	2,319	2,377	2,361	2,606
Total equity	744	662	668	805	1,001	1,220	1,449
Net debt	532	404	392	231	52	(156)	(359)
Revenue growth	11.8	14.3	8.0	23.0	16.0	2.4	2.4
OP margin	2.4	2.1	1.8	4.3	5.1	5.3	5.4
Net margin	0.6	0.7	0.6	3.1	3.7	4.0	4.1
EPS growth	(74.8)	50.6	(9.1)	496.5	39.4	10.4	4.8
ROE	2.5	4.0	3.8	20.5	23.3	20.9	18.2

Note: Based on consolidated K-IFRS

Source: DBS Bank

Share price recovery

Share price up 50.8% YTD on Chinese inbound traffic recovery and earnings turnaround

Hotel Shilla's share price has been solid since the beginning of the year, increasing 50.8% YTD and outperforming the KOSPI by 51.1%. We attribute this to: i) high expectations for inter-Korea economic co-operation and easing of THAAD retaliation; and ii) stronger-than-expected 1Q18 earnings. Despite lack of Chinese group tours, the company's revenue and operating profit grew 28.1% and 342.2% y-o-y respectively. Commission rate paid by its DF shops to travel agencies (based on revised IFRS 15) decreased to 11.9% (-4.4ppts y-o-y, -0.2ppt q-o-q) in 1Q18. These commissions have been the main cause of sluggish earnings.

2018/2019F earnings estimates (consensus) have been revised upwards since the release of 1Q18 earnings.

However, sharper share price growth led to an increase in valuation. Hotel Shilla is currently trading at a 12-month forward P/E of 29x, higher than global peers. The valuation may seem demanding, considering: i) slower-than-expected recovery in inbound traffic from China; and ii) the opening of new DF shops in Gangnam.

Valuation premium justified by high earnings growth and decreased earnings volatility

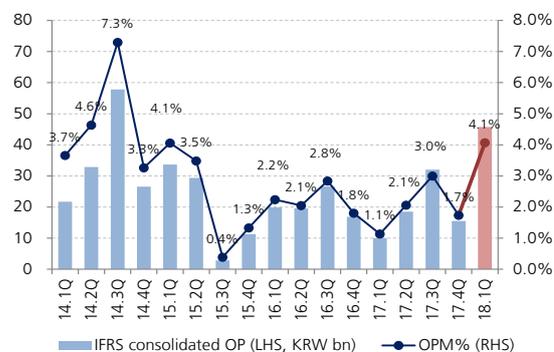
We think that Hotel Shilla's valuation premium is justified with continuously robust earnings (in 2Q18 and onwards), due to several reasons: i) Korean DF shops' market share is expanding because of changing consumption trends in China; ii) TR revenue should increase at a CAGR of 10.8% for 2018-2021, backed by increasing Chinese tourists; iii) commissions paid to travel agencies are unlikely to increase in 2H18, considering government regulations and demand growth; and iv) earnings volatility should fall gradually with business region/type diversifications.

Hotel Shilla: Stock performance relative to KOSPI



Source: Dataguide, DBS Bank

Hotel Shilla: Quarterly OP



Source: Hotel Shilla, DBS Bank

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Hotel Shilla

China's consumption trends to drive growth in TR revenue

DF shop sales growth likely to continue in 2H18 and onwards, driven by Weishangs

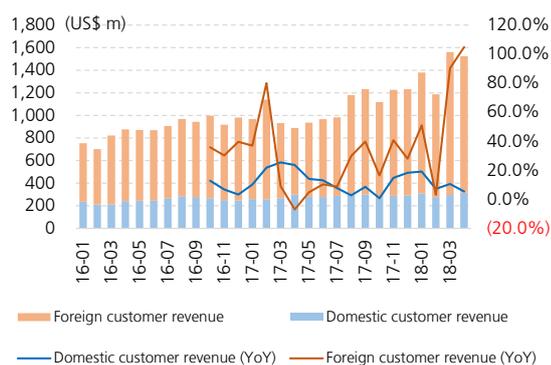
According to the Korea Duty-Free Shops Association, the combined revenue of Korean DF shops increased 71.4% y-o-y to US\$1.52bn in April 2018, showing strong growth (+35.7% y-o-y) for 1Q18. High revenue per foreign customers of US\$746.9 (+26.3% y-o-y) contributed to revenue growth in April. The ratio of foreign customers at DF shops to total inbound tourists stood at 121.6% in April,

up from 92.8% in the same month of 2017. We attribute this to repeated visits to DF shops, especially by Daigongs (shuttle traders) or Weishangs (who promote and sell products through mobile messengers).

As such, some raised concerns that revenue growth of DF shops could be limited after an increase in individual/group tourists from 2H18, due to sales cannibalisation.

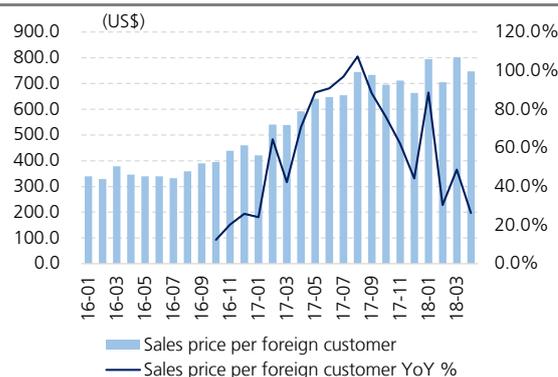
However, we expect such sales cannibalisation to be limited, considering Weishangs' continuing influence and China's changing consumption trends.

Korean DF shops: Monthly revenue



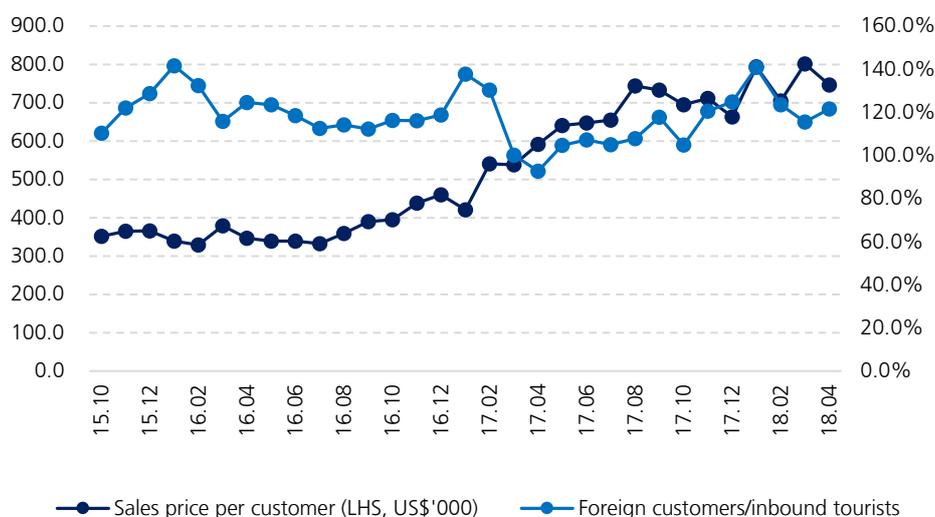
Source: Korea Duty Free Shops Association, DBS Bank

Korean DF shops: Revenue per foreign customer



Source: Korea Duty Free Shops Association, DBS Bank

Ratio of foreign customers at DF shops to total inbound tourists



Source: Korea Duty Free Shops Association, DBS Bank

China's changing consumption trends

China's recent consumption trends can be characterised by:

- i) increasing mobile purchases;
- ii) greater consumption by "jiu ling hou" (post-90s generation) and "ba ling hou" (post-80s generation);
- and iii) the emergence of the Wanghong (Chinese internet marketing influencers) economy.

i) Increased mobile shopping

China's e-commerce has grown rapidly at more than 20% since 2010. Mobile shopping's share of e-commerce has expanded in tandem since 2014 (32% in 2014 -> 78% in 2018F). This is attributable to high smartphone penetration. As of June 2017, internet penetration was 54.3%, with 96.3% of internet users also smartphone users). The development of mobile payment services, including Alibaba's Alipay (market share 50%) and WeChat Pay has also been a major factor.

ii) Greater jiu ling hou (post-90s)/ba ling hou (post-80s) influence

"Jiu ling hou" and "ba ling hou" refer to post-90s and post-80s generations, respectively. They are emerging as new drivers of consumption in China. Post-90s and post-80s generations (representing 16.8% and 15.2% of total population respectively) have higher propensities to consume compared with other generations. They were born under China's one-child family planning policy that was introduced in 1979. They are often treated like princes and princesses, enjoying affluent lifestyles, high education, as well as strong incomes and purchasing power.

According to a survey by the South West University of Finance and Economics, the consumption propensity of households led by "jiu ling hou" is 88%, higher than "ba ling hou" households (74%) or the national average (77%) in 2014. If "jiu ling hou" households' consumption propensity remains strong, they would account for over 22% of total consumption in 2020, increasing China's consumption-to-GDP ratio by 0.3ppt.

iii) Emergence of Wanghong economy

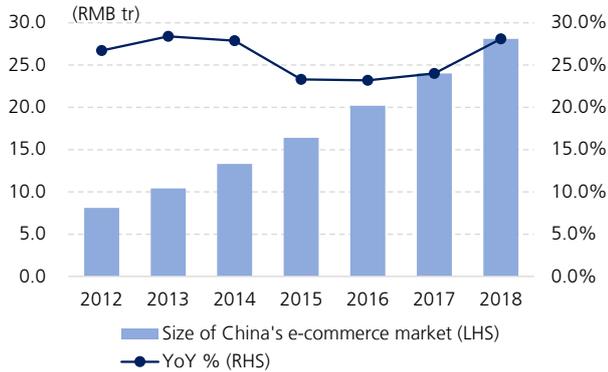
Wanghongs (internet + celebrities) refers to power bloggers or broadcast jockeys (BJs) with great online influence. They promote or sell cosmetics/clothing to millions of their social media followers. On 2015 Singles Day, 11 out of 20 top-selling women's clothing shops at online shopping site Taobao were run by Wanghongs. The so-called Wanghongs economy, which is estimated at RMB81.1bn as of end-2017, should expand to RMB101.6bn in 2018.

Wanghongs have strong influence among consumers born in the 1980s and 1990s. These generations use smartphones daily and prefer cost-efficient products with good reviews over luxury brands. Beauty and cosmetics companies such as AmorePacific and LG Household & Health Care (LG H&H) are actively pursue Wanghongs and utilise them for marketing, for example by inviting them to beauty classes.

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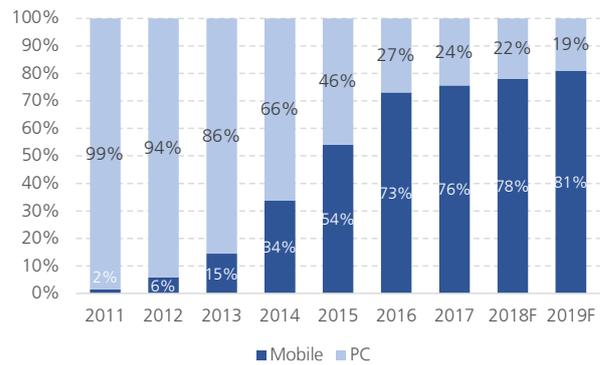
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China's e-commerce market



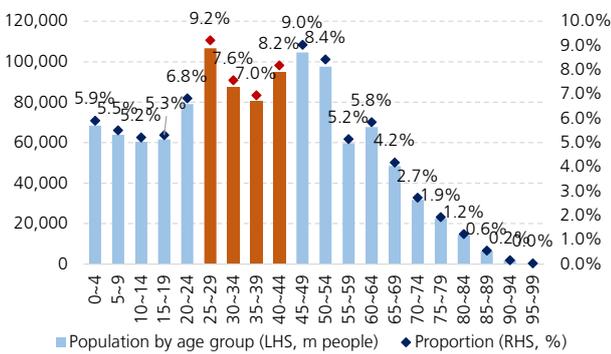
Source: Industry Information Network of China, DBS Bank

Percentage of online purchases in e-commerce



Source: iResearch, DBS Bank

China's demographic distribution by age group



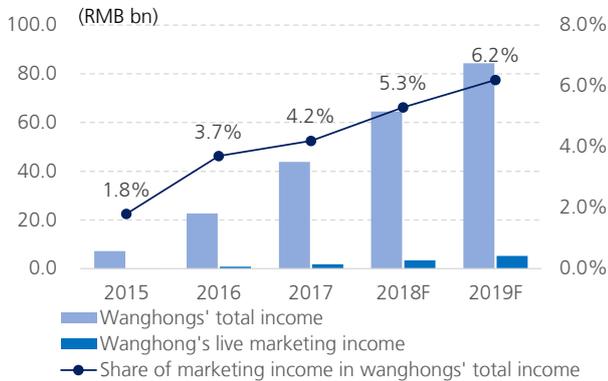
Source: National Bureau of Statistics of China, DBS Bank

Characteristics China's generations

	Post-80s	Post-90s	Post-00s
Background	Reform and opening-up policy, economic growth	Rapid economic growth	Rapid growth, entry into the smart era
Ages	27-36	17-26	7-16
When growing up	Grew up in affluence, benefiting from rapid economic growth	Familiar with information searching, growing up with the Internet	Familiar with smart devices, amid the rapid growth of science & IT technologies
Present	Most are married with children	Started working or studying at university	Middle school/high school students
Income level	RMB5,000 or higher	91.1% earn RMB3,000 or lower (most are students)	Students
Hobbies	Web surfing, watching US dramas	Gaming	Watching animated movies, mobile gaming
Education level	With bachelor's degrees	With bachelor's or master's degrees	High school students
Interest	Society/daily livelihood, entertainment, politics, laws	Entertainment, science & technologies	Mobile/digital devices

Source: KOTRA, DBS Bank

China's Wanghong economy



Source: CNNIC, Hanshangju, DBS Bank

Well-known Wanghongs



Zhang Dayi
4.05m followers

Opened a shopping mall on Taobao in May 2014. Ranked top in terms of revenue on Taobao upon every new release



Xue Li
1.41m followers

Sales from Jan-Aug 2015 estimated at RMB200m (over KRW35bn). Clothes are priced at between RMB220-240



Zhao Daxi
0.3m followers

Opened a Taobao shopping mall while in college. Her clothing company grew into a company with 100 employees when she graduated in 2013

Source: KOTRA, DBS Bank

1) Revenue from Korean DF shops growing in line with China's cosmetics consumption growth

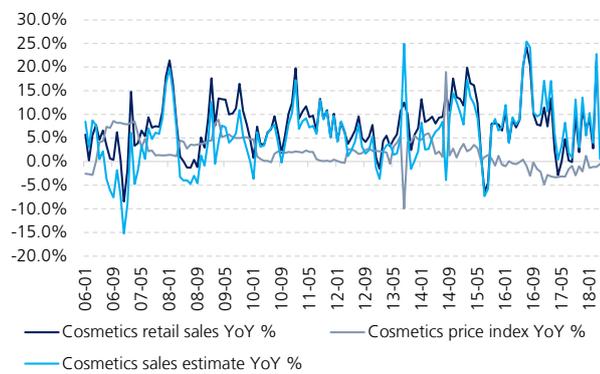
China's consumption trends to drive cosmetics growth

China's cosmetics market growth slowed to c.8% in 2011 from CAGR of over 12% in 2003-2010. However, it rebounded in 2017, driven by increased online shopping, similar to global trends. Cosmetic trends in China used to lag behind Japan and Korea, but have improved with greater use of smartphones.

Global cosmetics consumption trend

Despite China's ban on group tours to Korea, Korean retail cosmetics sales have recently surged (monthly average: KR₩1.84tr in 2015 -> KR₩2.05tr in 2016 -> KR₩2.14tr in 2017 -> KR₩2.45tn in 2018F). We attribute this to the simultaneous trading down and trading up of cosmetics consumption.

Korea's cosmetics retail sales and price index



Source: Statics Korea, DBS Bank

Cosmetics brand ranking on Taobao.com: Foundation

排名	品牌	关注指数
1	Estee Lauder/雅诗兰黛	11846.7
2	Revlon/露华浓	10616.6
3	SUQQU	10020.3
4	GIORGIO ARMANI/阿玛尼	9978.6
5	YSL/圣罗兰	9728.8
6	covermark/婭麗	9457.5
7	Shiseido/资生堂	8859.8
8	CPB/肌肤之钥	8855
9	MARIE DALGAR/玛丽黛佳	8709.3
10	BOBBI BROWN/芭比波朗	8674
11	Lancome/兰蔻	8605.9

Source: Taobao.com, DBS Bank

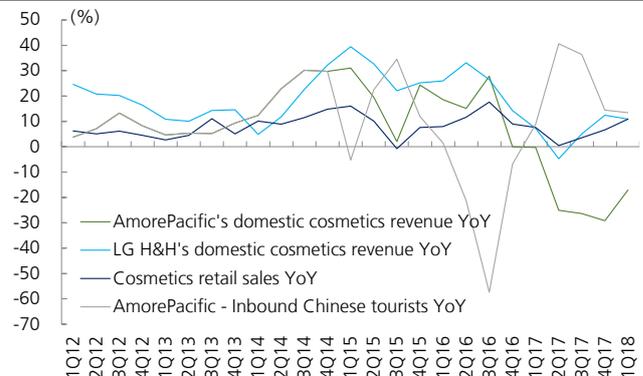
Trading down with low-end/mid-range brands

In Korea, cosmetics consumer groups have diversified amid increasing social media shopping. More new brands have been launched at new cosmetics select shops (including Shinsegae's CHICOR) as well as existing cosmetics shops (Olive Young, LOHB, etc.). The resulting increase in exposure has led to greater cosmetics consumption.

Trading up with premium brands =

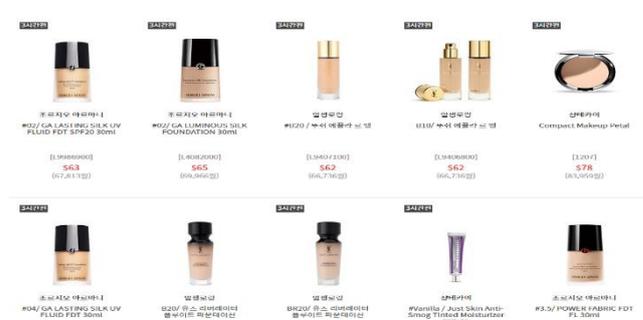
This trend is also seen in China with launch of new brands (number of local cosmetics companies: 70 in 2013 -> 250 in 2017) and consumer base expansion. Premium cosmetics consumption is also increasing, backed by a wider range of consumer age groups, greater purchasing power and global consumption trends. As such, we think China's cosmetics consumption growth will remain solid even with a higher base.

Korean brand cosmetics companies' sales vs. overall cosmetics retail sales



Source: Respective companies, Statics Korea, Tourism Knowledge Information System, DBS Bank

Shilla DF shop's best-selling products: Foundation

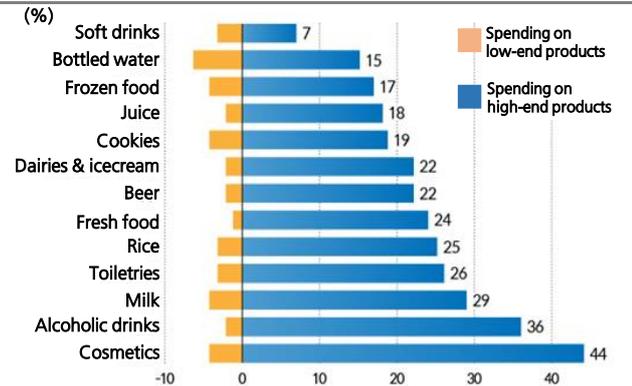


Source: Shilla Duty Free, DBS Bank

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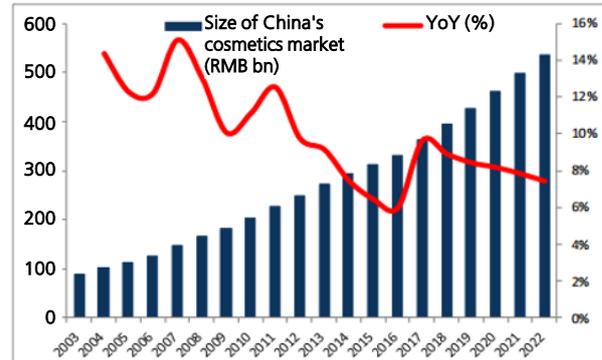
Hotel Shilla

Changes in China's consumption trends (by product)



Source: YUBO Business Intelligence, DBS Bank

China's cosmetics market



Source: Industry Information Network of China, DBS Bank

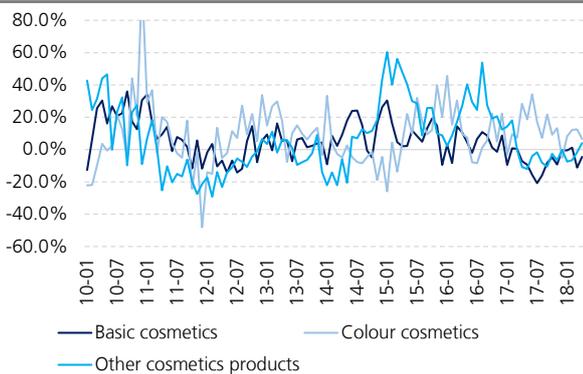
China's cosmetics consumption growth to benefit Korean companies

Such benefits include direct export growth. Despite the recent increase in China's cosmetics companies, its local products are lower in quality compared with Korean products. Strong preference for Korean cosmetics can be seen in growth of cosmetics exports to China.

China-bound cosmetics exports increasing

The ASP for China-bound cosmetics exports has decreased

ASP for China-bound cosmetics exports (y-o-y)



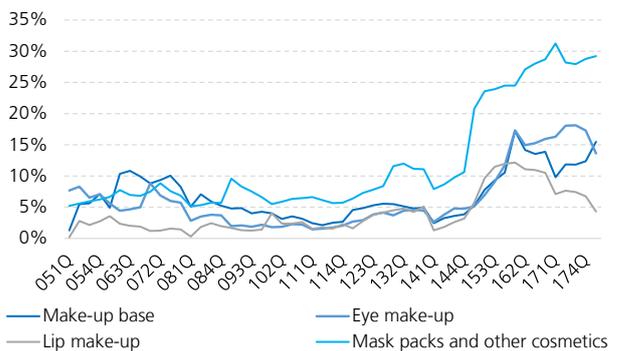
Source: YUBO Business Intelligence, DBS Bank

y-o-y, due to increased exports of new brands (AmorePacific, LG H&H). Chinese cosmetics imports from Korea have expanded sharply since 2014, especially colour cosmetics as well as mask packs.

Korean DF shops are main beneficiaries

We believe that greater cosmetics consumption in China will benefit Korean DF shop operators more than Korean cosmetics brands. Post-90s and post-80s generations are increasingly purchasing Korean cosmetics from Korean DF shops through Weishangs.

Share of China's cosmetics imports from Korea



Source: KITA, DBS Bank

Korean DF shops sell global brands at reasonable prices

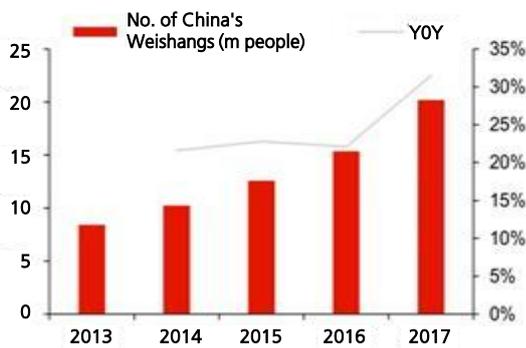
The emergence of Weishangs has made Korean DF shops a more attractive retail channel. Many Chinese consumers prefer Weishangs, due to reasonable prices and quality assurance. Korean DF shops provide global cosmetics brands at reasonable prices.

Hotel Shilla could lower purchasing prices with stronger bargaining power. Various promotional events may also lead to price cuts. In 2016, Hotel Shilla's cosmetics sales were estimated at KRW1.9tr (KRW2.5tr including HDC Shilla's sales), Hotel Lotte KRW3.3tr, and Dufry KRW2.9tr. Sales including overseas DF shops of Shilla and Lotte would be even higher.

Weishangs' purchases at Korean DFs on an uptrend

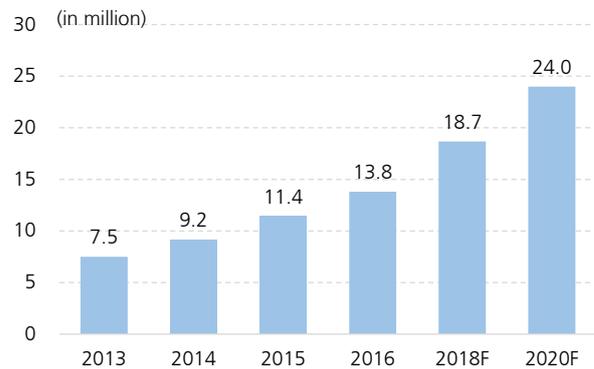
With competitive prices, Weishangs' purchases at Korean DF shops should continue to increase going forward. Some are concerned that revenue growth at DF shops could be limited due to sales cannibalisation caused by increase in individual/group tourists on easing of THAAD retaliation. However, we think such cannibalisation will be limited, considering Weishangs' main target customers (74% of customers aged 18-30, 65% living in Tier 3 or smaller cities). Weishangs' purchases at Korean DF shops are highly likely to increase further, considering the rapid growth in Weishangs and social media shopping channels.

Number of Weishangs in China



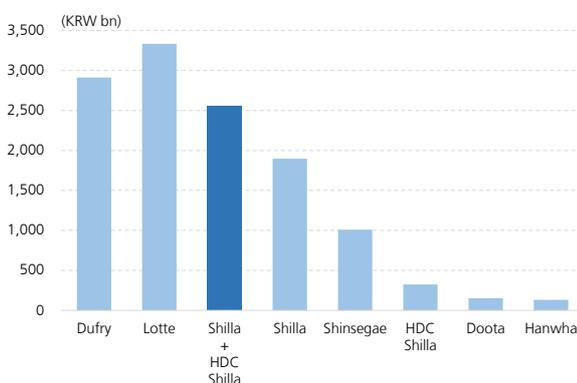
Source: Industry Information Network of China, DBS Bank

Number of China's micro-business retailers on social media (in 2013-2020)



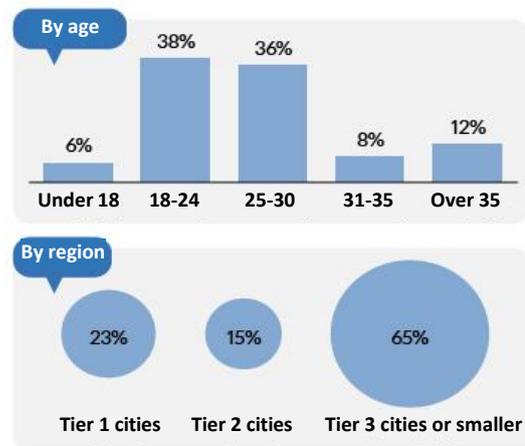
Source: YUBO Business Intelligence, DBS Bank

Cosmetics sales at major DF shops



Source: Respective companies, DBS Bank

Consumers buying mask sheets from Weishangs



Source: HENKUIAI, DBS Bank

Company Focus

Hotel Shilla

Individual/group tourists' arrivals to recover in 2H18

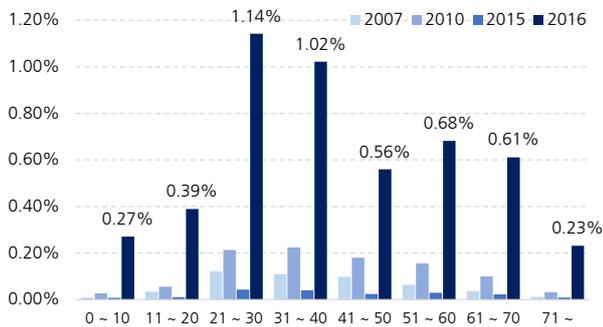
A gradual recovery in individual/group tourists' arrivals from 2H18 onwards should also contribute to domestic DF sales growth. Even before the THAAD retaliation, individual tourist arrivals from China were increasing at a steady pace. In 2016, overseas trips from China were 2.8% of total trips, rising 2.5 times from 1.1% in 2002. The sharp growth since 2011 is attributable to the increased purchasing power of "ba ling hous". Our demographic analysis of outbound Chinese tourists showed that tourists aged 21-30 and 31-40 surged in 2016. With "jiu ling hous" higher consumption propensity, China's overseas tourists should grow at a rapid pace going forward.

Breakdown of inbound Chinese tourists



Source: KATA, Tourism Knowledge Information System, DBS Bank

Chinese tourists' overseas travels (by age group)

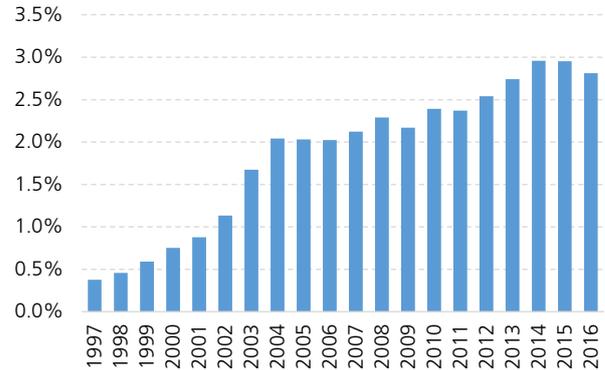


Source: Tourism Knowledge Information System, National Bureau of Statistics of China, DBS Bank

Chinese arrivals to surge until 2019

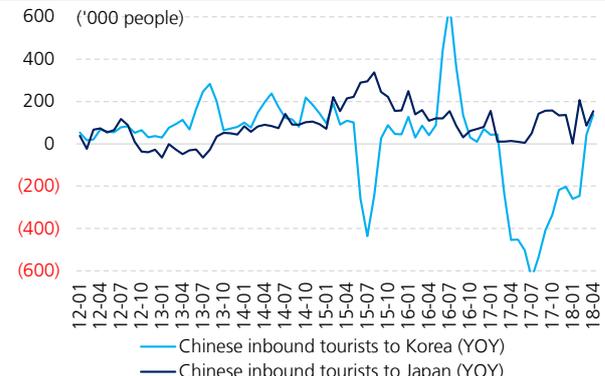
In particular, we think Chinese outbound trips to Korea will increase significantly until 2019, due to pent-up demand. Among preferred tourist destinations in the region, Thailand and Japan saw a 15.4% growth (y-o-y) of Chinese inbound tourists in 2017 (Apr 2017 - Apr 2018: +18.9%). The figure was solid, but not strong enough to indicate a clear benefit at the expense of China's retaliation against Korea's THAAD deployment. Chinese inbound tourists into Korea should grow 19% and 52% y-o-y in 2018 and 2019 respectively.

Percentage of Chinese overseas travels



Source: National Bureau of Statistics of China, DBS Bank

Inbound Chinese tourists to Korea/Japan reduced sharply



Source: Tourism Knowledge Information System, National Bureau of Statistics of China, DBS Bank

2) Increased DF customers to ease commissions to travel agencies

Commissions likely to fall with more DF shoppers

Hotel Shilla should also see other positive changes. Increased DF customers should lead to lower commissions paid by the company.

Hotel Shilla's commissions paid to travel agencies increased continuously from 2015 and affected its profit margins. As competition intensified ahead of new DF shop openings, commissions (as a percentage of sales) rose to 16.3% in 1Q17. However, competition among DF shops eased on weakened earnings of small- to mid-sized DF shop operators due to a drop in Chinese group tours. Even with higher sales contributions from Daigongs/Weishangs, Hotel Shilla's commissions have stabilised at c.12% for four consecutive quarters. We expect its commissions to decline further on a structural increase in Daigongs/Weishangs and recovery in individual/group tourists. Some brands have already placed limits to promotional terms.

Competition unlikely to intensify

There are concerns that competition could intensify again with DF shop openings in Gangnam by Shinsegae (July) and Hyundai Department Store (December). However, we

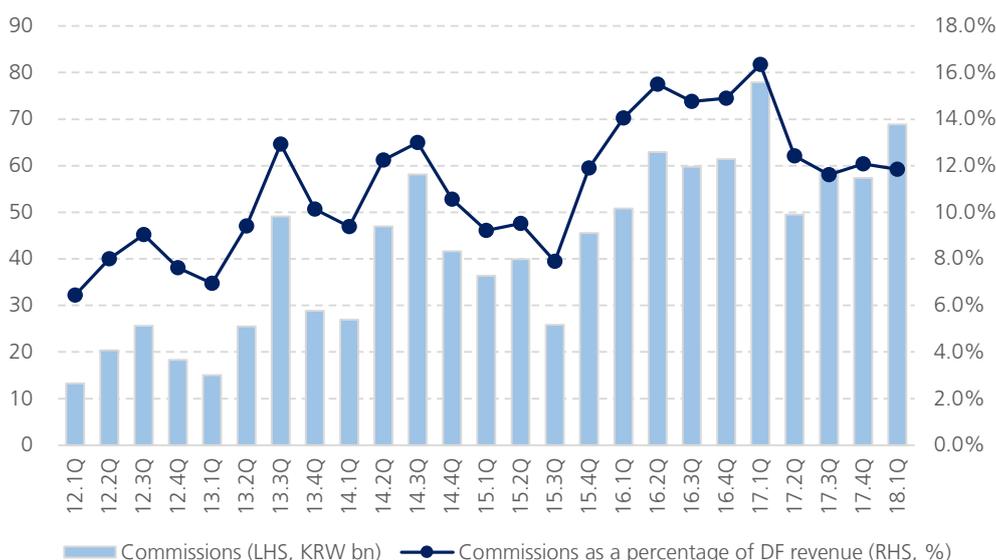
believe that DF shop operators are unlikely to see sharp margin deterioration as in the past, considering: i) a wider gap in bargaining power among DF shops (compared with 2016); ii) higher sales contribution from Daigongs/Weishangs; and iii) the proposed guidance by the Korea Association of Travel Agents (KATA) to restrict group tour agencies' excessive reliance on commissions.

Hotel Shilla has expanded its cosmetics sales volume by securing DF shop licences at overseas airports (Singapore, Hong Kong). Even if competitor Shinsegae opens a new DF shop, its revenue would be only 50-60% of Shilla's, making it difficult for them to compete with Shilla in terms of prices. While prices could be lowered through commission adjustments, group tour agencies cannot concentrate on just Gangnam which has fewer tourist spots. They need to diversify their revenue sources. The most preferred tourist spots based on 2016 statistics were: Myeongdong (63.2%) > Dongdaemun Market (48.6%) > Namsan/Seoul Tower (33.6%) > Palaces (30.1%) > Shinchon/Hongdae (25.9%) >> Gangnam (21.2%).

Commissions likely to remain at c.11%

We expect Hotel Shilla's commission to remain at c.11%, considering limited competition and increased sales share of cosmetics.

Hotel Shilla: Commission vs. DF sales



Source: Hotel Shilla, DBS Bank

Company Focus

Hotel Shilla

New duty-free shops slated to open in 2H18

	Hyundai Department Store	Shinsegae
Branch name	Hyundai Department Store Trade Centre Branch	Shinsegae DF Gangnam Branch
Location	Tehran-ro, Gangnam District, Seoul	Central City, Seocho District, Seoul
Opening	December	July
Investments up until April	KRW40bn	KRW19.9bn
Planned investments	KRW200bn	KRW350bn
Total floor area	14,005m ² (Floors 8 - 10 at HDS Trade Centre)	13,570m ²
Nearby facilities	COEX, SM Town, luxury hotel, subway station (Line 2)	Luxury hotel, Famille Station (shopping mall), express bus terminals, subway station (Lines 3, 7, 9), three airport limousine bus routes
		

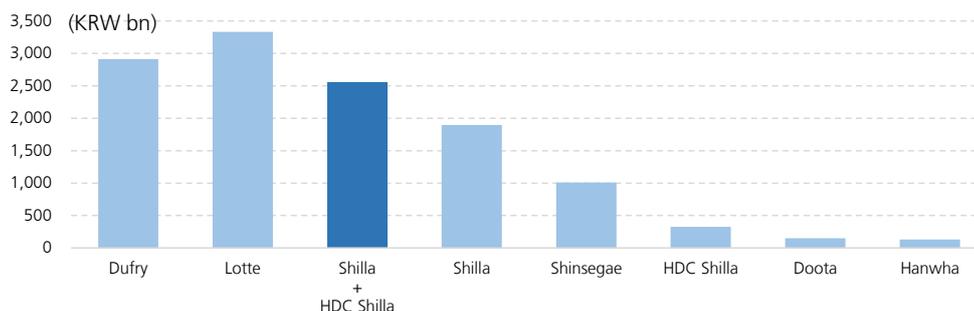
Source: Media reports, DBS Bank

Korea Association of Travel Agents' (KATA) proposed guidelines on group tours

Violation	Related Provisions	Penalty			
		1st	2nd	3rd	4th~
a. If failing to comply with a request to submit data or attach a QR code	Article 6.2 Article 9.4 Article 9-2.3	Correction order	Suspension of business (10 days)	Suspension of business (1 month)	Suspension of business (2 months)
b. If a designated travel agency fails to report any group tourist who leaves the group without permission or earnings related to group tours, or it enters false information in the electronic management system	Article 9.2 Article 9-2	Correction order	Suspension of business (15 days)	Suspension of business (1 month)	Suspension of business (3 months)
c. If a travel agency attracts group tourists from China at unreasonable prices or solely depends on shopping commissions for its profit (exceeding scheduled shopping time/frequencies, receiving illicit gains, changing the itinerary specified in the contract or demanding additional costs, share of ground expenses, etc.)	Article 9.5	Correction order (list disclosure)	Suspension of business (1 month)	Cancellation of designation	

Source: KATA, DBS Bank

Cosmetics sales at major DF shops



Source: Respective companies, DBS Bank

Recommendations on DF shop licences to improve profitability

Some proposed recommendations to improve the existing duty-free shopping system are targeted, among others, at improving margins.

According to these recommendations, duty-free shop operators would be allowed to maintain their business licences for up to 10 years (one renewal) for conglomerates and 15 years (two renewals) for small-to mid-sized

operators, instead of the conventional five-year limit. This is to address complaints that the current licence period is too short, causing job instability and limiting competitiveness.

The five-year limit has made it tougher for operators to recover investment costs and make a profit. The designation of a new operator also intensifies competition for market share.

The recommendations would help ease unnecessary competition and improve profitability of DF shop operators.

Recommendations for duty-free shopping system improvement

Item	Description		Notes
New licence issuance	New licence issuance conditions	If the number of inbound tourists in an administrative district increases by 300,000 or more Y-0-Y	New licences shall be issued flexibly, depending on market conditions (including occurrence of unexpected events in the tourism industry)
		If 3-year average sales of downtown duty-free shops in an administrative district show a CAGR of 10% or higher	
	Duty-free shopping system operating committee (tentatively named)	New licence issuance shall be determined based on recommendations by the committee	A local government's opinion based on its own conditions may be reflected in the discussion.
		If satisfying two issuance conditions, the committee shall submit the proposal (whether to issue a new licence or not / the number of licences) to the government.	
Licence renewal & term	Licence term	Licence term shall remain unchanged at 5 years	
	One renewal	One renewal shall be allowed for conglomerates	This shall apply retroactively to resolve problems with the current limited term.
	Two renewals for SMEs	One (currently allowed) + one (additional renewal)	
	New renewal conditions	The Licence Deliberative Committee shall conduct the final review based on submitted data.	Self-evaluation on previous business plan, a new five-year business plan
Licence fees	Current system maintained	The decision on fees adjustment has been postponed.	The operating committee shall discuss the adjustment, if necessary
Duty-free shopping system operating committee (tentatively named)	Proposal to newly establish a standing committee	The government shall make the decision based on the proposal by the committee (whether to adjust the number of new licences or licence fees)	
		The operating committee shall be separately operated from the existing Licence Deliberative Committee.	
		The operating committee shall discuss additional improvement measures and submit recommendations to the government.	

Source: Media reports, DBS Bank

Company Focus

Hotel Shilla

3) Increased earnings potential + decreased volatility = valuation premium

Valuation premium justified with high earnings potential and decreased earnings volatility

Hotel Shilla's share price has risen 50.8% YTD, driven by solid 1Q18 earnings and high expectations for Chinese inbound traffic recovery. The company is currently trading at a 12-month forward PE of 29x, which is higher than global peer Dufry's (13x) and similar to the average PE of hotel/cosmetics companies (30x).

We think such valuation premium can be justified, in view of higher earnings growth and lower earnings volatility, compared with global peers (especially, Dufry).

Operating profit growth estimated at 192.2% for 2018 and 35.9% for 2019

i) **High earnings potential.** We estimate the company's revenue and operating profit to grow at 16% and 35.9%, respectively, for 2018-2019. Consensus estimates are also high at 14.2% and 28.4%, respectively. We attribute this to: i) an increase in domestic DF business revenue on the back of Chinese inbound traffic recovery and structural growth in Weishangs; ii) easing of commission competition; and iii) cost structure improvement on increased cosmetics sales.

The company should also post operating profit improvement on the back of decreased losses from Singapore and Hong Kong Airport DF shops that are showing significant sales growth.

The company's DF shop at Singapore Changi Airport recorded net losses of KRW60.1bn in 2015, KRW37.7bn in 2016, and KRW20bn in 2017. However, its losses declined to KRW2.8bn in 1Q18, with annual net losses likely to meet its target (KRW10bn). The DF shop at Hong Kong Airport is likely to show an earnings turnaround in the short term, considering favourable contract terms such as rental fees. Its revenue came in at KRW94.2bn in 1Q18, with annual

revenue likely to exceed the target of KRW340bn (operating profit: KRW4bn).

Further revision to earnings estimates likely

If Hotel Shilla can win the tender to operate DF1 and DF5 at Incheon Airport Terminal 1, its earnings estimates would be raised further. We estimate that DF1 (perfume/cosmetics, 5,091m²) and DF5 (leather/fashion, 1,814 m²) recorded revenue of KRW550bn and KRW350bn, respectively, in 2017. Hotel Shilla and Shinsegae have been shortlisted for the tender. DF1/DF5 revenue is equivalent to 10% and 6%, respectively, of Hotel Shilla's 2019F revenue. Considering a lower tender price, Hotel Shilla is likely to see solid margins if it wins the tender. Its bargaining power would also increase from economies-of-scale.

Earnings volatility to decrease

ii) **Less volatility.** Hotel Shilla's earnings volatility should decrease gradually. Its earnings stability should strengthen on DF shop region/type diversifications (domestic/overseas, online/offline, downtown/airport).

Korean DF shops have shown higher earnings volatility, compared with global DF shops, owing to high dependence on Chinese group tourists. However, such volatility is likely to ease on a structural increase in sales contribution from Weishangs. With licences to operate DF shops at Hong Kong/Singapore preferred by Chinese tourists, Hotel Shilla should be in a favourable position for earnings stabilisation.

In comparison, global DF shop operators such as Dufry are focusing more on airport DF shops, unlike Korean players. They pursue sales growth and economies-of-scale through acquisitions of DF shops in emerging countries with high inbound/outbound traffic growth. However, concession commissions have increased amid intensified competition for licences. With licences for its high-margin DF shops expiring soon, Dufry margin has deteriorated even with continued sales growth since 2015. This is in sharp contrast to Hotel Shilla, which should see sales growth and margin improvement soon.

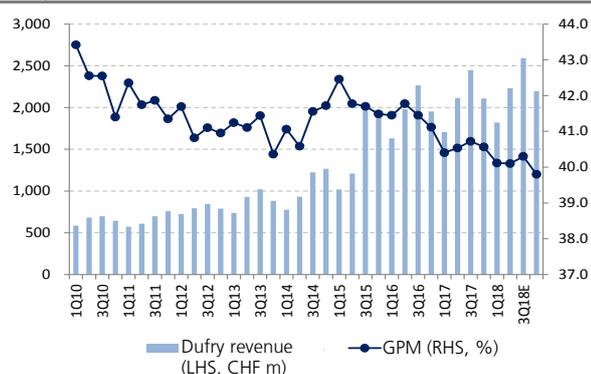
Global peers' valuations

	Company	Stock code	Last Price	Market Cap. (bn in local currency)	Stock Price Performance (%)			Revenue (bn)		EBIT (bn)		PE		P/BV		ROE	
					1M	6M	YTD	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F
	HOTEL SHILLA	008770 KS	126,500	5,004	2.00	58.19	50.18	4,802	5,495	200	276	39.68	27.04	6.32	5.22	17.29	21.00
Hotel	MARIOTT	MAR US	139.14	49.17	(0.49)	8.06	2.51	22.73	23.76	2.68	3.13	25.28	21.74	18.56	27.11	62.64	112.32
	HILTON WORLDWIDE	HLT US	83.99	25.23	0.58	9.08	5.17	9.49	10.19	1.55	1.75	31.05	26.46	30.21	49.99	57.21	178.98
	HYATT	H US	83.52	9.36	2.35	18.05	13.57	4.51	4.69	0.34	0.39	56.43	43.03	2.65	2.73	15.56	7.16
	ACCOR	AC FP	43.75	12.71	(5.81)	4.09	1.74	2.54	2.91	0.59	0.68	32.50	25.72	2.07	2.12	7.18	8.67
	SHANGRI-LA ASIA	69 HK	2.16	60.66	14.02	2.17	(4.62)	2.40	2.56	0.30	0.37	33.18	26.96	1.14	1.12	3.65	4.20
Luxury goods	LVMH	MC FP	301.15	152.32	2.57	22.20	22.72	46.00	49.12	9.26	10.02	26.27	23.99	4.69	4.21	18.58	18.26
	HERMES	RMS FP	564.00	59.54	(2.60)	28.83	27.46	5.87	6.35	1.98	2.15	45.60	41.74	10.83	9.26	24.64	23.68
Duty-free	DUFY	DUFN SW	139.00	7.49	(4.51)	6.59	(1.57)	8.95	9.46	0.55	0.64	14.83	12.79	2.44	2.41	16.63	21.03
Travel	HANA TOUR	039130 KS	100,000	1,162	(2.44)	(1.96)	(2.91)	888	982	64	89	26.05	18.57	4.90	4.16	20.65	25.37
	MODE TOUR	080160 KS	32,500	614	(4.55)	(2.55)	6.56	405	460	41	49	19.32	15.98	3.75	3.19	21.74	22.15
	PRICELINE	PCLN US	2,124.29	102.34	2.52	23.24	22.24	14.65	16.59	5.34	6.08	24.07	21.04	7.88	6.49	37.35	36.82
	CTRIIP	CTRP US	316.98	26.97	14.78	14.14	12.18	31.58	39.40	5.57	7.37	38.36	28.78	2.08	1.99	4.43	6.37
	EXPEDIA	EXPE US	123.62	18.56	8.52	4.15	3.21	11.36	12.68	0.92	1.11	24.42	20.70	3.92	3.21	13.16	15.45
Cosmetics	LG H&H	051900 KS	1,430,000	22,334	8.91	23.92	20.27	6,712	7,220	1,069	1,192	31.25	27.80	6.51	5.59	22.40	21.08
	AMOREPACIFIC	090430 KS	327,500	19,145	(4.24)	5.14	7.55	5,781	6,570	773	954	36.88	29.73	4.56	4.04	12.79	14.11
	COSMAX	192820 KS	173,500	1,744	2.97	42.80	48.29	1,199	1,423	61	85	40.64	28.80	7.01	5.74	17.34	21.14
	KOREA KOLMAR	161890 KS	78,700	1,661	(1.75)	(3.08)	(4.02)	1,051	1,251	97	128	28.23	22.90	4.66	3.93	17.20	18.73
	TONYMOLY	214420 KS	17,150	303	(8.78)	(18.33)	(3.11)	249	273	-	-	32.57	21.30	2.46	2.24	7.90	11.10
	P&G	PG US	77.53	194.96	5.67	(13.71)	(15.62)	66.98	68.61	14.54	15.11	18.51	17.42	3.58	3.67	19.41	20.87
	Estee Lauder	EL US	155.05	56.91	10.60	24.09	21.86	13.65	14.67	2.26	2.53	34.77	30.81	12.38	11.18	36.81	41.92
	L'OREAL	OR FP	41.76	137.96	2.55	10.76	10.91	26.46	27.80	4.84	5.15	30.04	28.16	4.34	4.04	14.82	14.59
	SHISEIDO	4911 JP	9,018	3,607	25.11	65.17	65.59	1,084	1,176	114	137	50.06	40.32	7.61	6.64	16.22	17.81
	KOSE	4922 JP	24,790	1,502	19.76	44.63	40.93	334	364	60	68	40.76	35.57	6.81	6.00	17.88	17.67
	UNILEVER	ULVR LN	47	138.55	(0.33)	(3.23)	0.92	51.83	52.64	9.37	9.98	20.47	18.86	9.90	9.72	47.18	53.17
BEIERSDORF	BEI GR	98.28	24.77	1.49	(2.28)	0.39	7.19	7.52	1.13	1.21	28.64	26.74	3.93	3.59	14.13	13.65	

Source: Bloomberg Finance L.P., DBS Bank

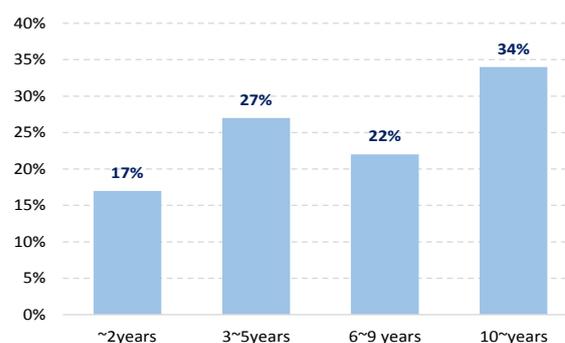
Note: Based on consensus numbers

Dufry: Revenue and GPM trend



Source: Bloomberg Finance L.P., DBS Bank

Dufry: Concession length (2016)



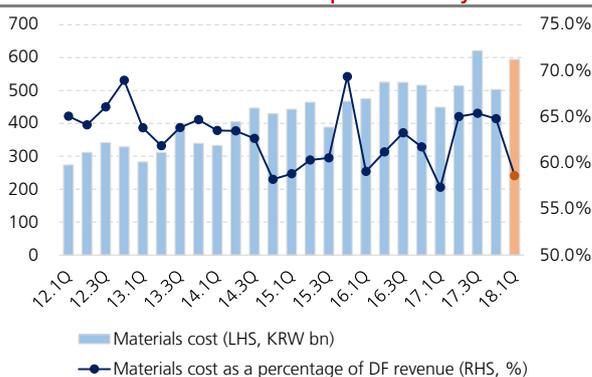
Source: Dufry, DBS Bank

Hotel Shilla: Revenue breakdown



Source: Hotel Shilla, DBS Bank

Hotel Shilla: Ratio of materials expense to duty-free sales



Source: Hotel Shilla, DBS Bank

Company Focus

Hotel Shilla

Initiate coverage of Hotel Shilla with BUY rating and target price of KRW160,000

We derive our target price for Hotel Shilla by using sum-of-the-parts valuation. We apply target multiples of 33x to its TR business (10% premium to average PE of global cosmetics peers) and 27x to hotel & leisure business (25% discount to average PE of global hotel peers). Valuation premium for TR business is justified given that: i) more than 50% of its TR revenue is generated from cosmetics; and ii) solid earnings growth is expected in line with cosmetics consumption growth. This is in direct contrast with the fortunes of other types of cosmetics companies with different sales growth (per brand) affected by changes in consumption trends.

We see a 26.5% upside potential from current share price levels. Further upward revision is also likely to earnings estimates and target price, depending on the results of Incheon Terminal 1 DF shop tender.

On the other hand, potential risks include: i) delayed recovery in Chinese inbound traffic due to slower-than-expected easing of THAAD retaliation; and ii) restrictions on Daigongs/Weishangs. Such risks, if realised, could weigh on Hotel Shilla's TR revenue in the short term. However, we think any restrictions are unlikely to remain effective in the medium term, considering its diversified shopping channels, including overseas direct purchases and reverse direct purchases.

Hotel Shilla: Sum-of-the-parts valuation

* Hotel Shilla					(KRW bn)
A. Operating value		Fw NOPLAT	Target multiple	60,792.8	
TR business		1,596.3	33	52,678.0	10% premium to global cosmetics peers' avg. multiple
Hotel business		300.5	27	8,114.8	25% discount to global hotel peers' avg. multiple
B. Non-operating value		Book value		2,038.7	
Investments in affiliates		526.9		395.2	25% discount to book value for Dec 2018
Investments in subsidiaries		2,191.4		1,643.5	25% discount to book value for Dec 2018
C. Net debt				2,307.2	Parent-based (as of end-Mar 2018)
Equity Value (A+B-C)				60,524.4	
No. of shares issued				39,248,121	Incl. treasury shares
No. of treasury shares				2,135,000	5.4%
Fair price (KRW)				160,000	
Current price (KRW)				126,500	Closing price as of 11 June
Upside potential				26.5%	

Source: DBS Bank

Hotel Shilla: Earnings estimates in detail

(KRW bn)	2017	2018F	2019F	17.1Q	17.2Q	17.3Q	17.4Q	18.1Q	18.2QF	18.3QF	18.4QF	19.1QF	19.2QF	19.3QF	19.4QF
Revenue	3,737.5	4,932.3	5,720.3	878.6	899.7	1,067.2	892.0	1,125.5	1,144.3	1,292.1	1,370.5	1,338.5	1,424.5	1,509.9	1,447.3
TR business	3,298.0	4,445.4	5,191.8	782.7	790.0	949.2	776.1	1,013.7	1,026.3	1,161.8	1,243.6	1,216.7	1,296.8	1,368.7	1,309.7
Inner-city DF	2,051.4	2,627.2	3,169.8	476.5	481.9	617.8	475.2	581.4	597.9	693.9	754.0	730.6	797.4	844.5	797.3
Airport DF	1,246.6	1,818.2	2,022.0	306.2	308.1	331.4	300.9	432.3	428.4	467.9	489.6	486.1	499.3	524.2	512.4
Domestic	688.1	840.9	988.1	183.5	176.3	187.9	140.3	189.9	192.1	220.5	238.3	229.7	249.3	262.6	246.5
Overseas	575.0	977.4	1,033.9	139.2	131.8	143.5	160.6	242.4	236.3	247.4	251.3	256.4	250.0	261.7	265.8
Singapore Changi	547.4	591.1	620.7	134.7	128.9	142.4	141.4	148.2	139.3	152.4	151.3	155.6	146.2	160.0	158.8
Macau	5.2	0.0	0.0	2.5	1.6	1.1	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hong Kong	22.4	386.2	413.3	1.9	1.2	(0.0)	19.3	94.2	97.0	95.0	100.0	100.8	103.8	101.7	107.0
Hotel/leisure Business	439.5	486.9	528.5	95.9	109.7	118.0	115.9	111.8	118.0	130.3	126.9	121.8	127.8	141.2	137.7
Hotels	133.8	133.8	133.8	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Leisure	34.8	34.8	34.8	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
[YoY %]															
Revenue	0.6%	32.0%	16.0%	(1.2%)	(5.7%)	13.8%	(4.6%)	28.1%	27.2%	21.1%	53.6%	18.9%	24.5%	16.9%	5.6%
TR business	(0.8%)	34.8%	16.8%	(2.5%)	(7.9%)	14.5%	(7.1%)	29.5%	29.9%	22.4%	60.2%	20.0%	26.4%	17.8%	5.3%
Inner-city DF	(0.8%)	28.1%	20.7%	(2.1%)	(10.5%)	19.2%	(9.5%)	22.0%	24.1%	12.3%	58.7%	25.7%	33.4%	21.7%	5.7%
Airport DF	(0.9%)	45.9%	11.2%	(3.1%)	(3.6%)	6.6%	(3.2%)	41.2%	39.0%	41.2%	62.7%	12.4%	16.6%	12.0%	4.6%
Hotel/leisure Business	12.8%	10.8%	8.5%	11.8%	13.8%	8.9%	17.1%	16.6%	7.6%	10.4%	9.5%	9.0%	8.3%	8.4%	8.5%
Hotels	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Leisure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating expenses	3,661.5	4,717.2	5,430.1	868.6	881.2	1,035.2	876.5	1,079.8	1,096.5	1,224.7	1,316.2	1,288.5	1,346.0	1,413.7	1,382.0
of sales %	98.0%	95.6%	94.9%	98.9%	97.9%	97.0%	98.3%	95.9%	95.8%	94.8%	96.0%	96.3%	94.5%	93.6%	95.5%
1) Materials expenses	2,085.9	2,707.5	3,165.1	448.9	513.6	620.5	502.9	594.1	627.1	710.9	775.5	736.1	790.2	834.1	804.7
Materials cost/DF revenue	63.2%	60.9%	61.0%	57.3%	65.0%	65.4%	64.8%	58.6%	61.1%	61.2%	62.4%	60.5%	60.9%	60.9%	61.4%
2) Labour cost	202.8	227.6	232.2	55.8	37.9	58.6	50.4	69.0	47.4	59.8	51.5	70.4	48.3	61.0	52.5
3) Others	1,372.7	1,782.0	2,032.8	363.9	329.7	356.0	323.1	416.7	422.0	454.1	489.2	482.0	507.4	518.6	524.8
i) Commissions	244.0	308.6	366.8	77.9	49.5	59.2	57.4	68.9	68.8	81.2	89.7	85.5	91.7	97.1	92.5
(% of inner-city DF revenue)	11.9%	11.7%	11.6%	16.6%	10.5%	9.9%	12.4%	9.9%	9.7%	10.0%	9.6%	9.6%	9.6%	9.9%	9.6%
ii) Rental expenses	657.9	882.3	919.3	156.9	158.4	164.2	178.3	212.5	214.0	220.9	234.9	221.7	223.2	230.1	244.2
(% of airport DF revenue)	52.8%	48.5%	45.5%	51.3%	51.4%	49.6%	59.2%	49.2%	50.0%	47.2%	48.0%	45.6%	44.7%	43.9%	47.7%
iii) Others	465.4	591.2	746.7	129.0	121.8	132.6	82.0	135.3	139.3	152.0	164.6	174.7	192.4	191.4	188.2
(% of sales)	12.5%	12.0%	13.1%	14.7%	13.5%	12.4%	9.2%	12.0%	13.5%	12.4%	12.7%	12.0%	13.5%	12.4%	12.7%
Operating profit	76.0	215.1	290.3	10.0	18.5	32.0	15.5	45.7	47.8	67.3	54.3	50.0	78.6	96.3	65.4
OPM%	2.0%	4.4%	5.1%	1.1%	2.1%	3.0%	1.7%	4.1%	4.2%	5.2%	4.0%	3.7%	5.5%	6.4%	4.5%
TR business	58.3	181.1	242.2	16.9	8.1	23.4	9.9	47.6	36.3	53.6	43.6	50.0	63.5	78.1	50.7
OPM%	1.8%	4.1%	4.7%	2.2%	1.0%	2.5%	1.3%	4.7%	3.5%	4.6%	3.5%	4.1%	4.9%	5.7%	3.9%
Hotel/leisure Business	14.6	32.5	48.0	(6.9)	9.1	6.8	5.6	(3.4)	11.4	13.8	10.7	0.1	15.1	18.2	14.6
OPM%	3.3%	6.7%	9.1%	-7.2%	8.3%	5.8%	4.8%	-3.1%	9.7%	10.6%	8.4%	0.0%	11.8%	12.9%	10.6%

Source: DBS Bank

Company Focus

Hotel Shilla

BALANCE SHEET

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Current Assets	1,079.1	1,198.4	1,246.8	1,285.4	1,248.5
Cash & Short-term investment	347.2	477.9	448.0	476.6	434.9
Accounts Receivable	184.2	160.3	206.9	218.5	224.6
Inventories	471.3	499.8	525.7	523.4	521.5
Fixed assets	961.8	1,051.5	1,072.0	1,091.2	1,112.6
Investment Assets	206.7	314.6	329.9	334.2	338.7
Tangible Assets	706.9	693.1	706.9	731.1	755.0
Intangible Assets	48.2	43.8	35.2	25.8	19.0
Total Assets	2,041.0	2,249.9	2,318.9	2,376.6	2,361.1
Current Liabilities	739.9	910.1	982.7	1,092.9	858.0
Accounts Payable	256.0	322.0	390.5	396.5	407.4
Short-term Debts	152.6	221.6	180.1	280.1	30.1
Non-current Liabilities	639.5	671.7	531.0	282.3	283.6
Long-term Debts	598.9	648.6	498.7	248.7	248.7
Total Liabilities	1,379.4	1,581.8	1,513.7	1,375.2	1,141.6
Capital Stock	200.0	200.0	200.0	200.0	200.0
Capital Surplus	196.6	196.6	196.6	196.6	196.6
Earned Surplus	371.3	381.6	519.1	715.4	933.5
Capital Adjustment	(106.3)	(110.6)	(111.1)	(111.1)	(111.1)
Treasury Stock	(104.5)	(104.5)	(104.5)	(104.5)	(104.5)
Total Equity	661.5	668.1	805.2	1,001.5	1,219.5
Invested capital	1,030.3	1,026.8	1,001.8	1,018.1	1,026.4
Net debt / (cash)	404.4	392.2	230.7	52.1	(156.2)
ROA	1.3	1.2	6.6	9.0	
ROE	4.0	3.8	20.5	23.3	20.9
ROIC	3.7	4.0	16.0	21.8	23.2

CASH FLOW

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Operating cash flow	114.4	199.6	111.3	35.9	317.4
Net Profit	27.8	25.3	150.8	210.3	232.2
Depr. & Amort.	74.5	71.4	72.3	70.7	70.2
Chg in Working Capital	(29.1)	58.8	16.7	0.1	10.3
Chg in Accounts Receivable	(45.0)	40.2	(36.6)	(11.6)	(6.0)
Chg in inventories	(1.6)	(35.3)	(56.3)	2.2	1.9
Chg in Accounts Payable	3.3	70.3	100.2	6.0	10.9
Investing cash flow	145.8	(163.3)	(93.4)	(93.3)	(95.1)
Chg in Short-term Investments	(1.9)	(0.7)	2.7	(0.1)	(0.1)
Chg in Long-term Investment Securities	(0.3)	0.0	(3.5)	(4.8)	(4.8)
Capex	(66.8)	(64.9)	(78.8)	(85.3)	(87.0)
Disposal of Tangible & Intangible Assets	0.9	5.1	(0.2)	(0.2)	(0.2)
Financing cash flow	(236.3)	94.1	(45.7)	86.0	(264.0)
Chg in debt	(98.3)	129.0	(39.7)	100.0	(250.0)
Chg in Equity	(13.8)	(13.3)	(13.3)	(14.0)	(14.0)
Dividend Payout	13.8	13.3	13.3	14.0	14.0
Chg in Cash	20.8	127.8	(27.9)	28.5	(41.7)
Gross cash flow	166.6	155.6	93.0	35.8	307.1
(-) Chg in WC	(129.5)	(112.7)	(35.9)	(0.1)	(10.3)
(-) Capex	66.8	64.9	78.8	85.3	87.0
(+) Disposal of Assets	0.9	5.1	(0.2)	(0.2)	(0.2)
Free Cash Flow	230.2	208.5	49.9	(49.7)	230.2
(-) Other Investments	0.3	0.0	3.5	4.8	4.8
Free Cash	229.9	208.5	46.4	(54.4)	225.4

Source: DBS Bank

Note: Results are consolidate d

*Asset = Equity + Debt, P/E is derived by using diluted EPS.

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INCOME STATEMENT

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Revenue	3,715.3	4,011.5	4,932.3	5,720.3	5,855.0
Growth (%)	14.3	8.0	23.0	16.0	2.4
Operating Profit	79.0	73.1	213.6	290.3	313.0
Growth (%)	2.4	(7.4)	192.2	35.9	7.8
EBITDA	153.5	144.5	285.9	361.0	383.2
Non-operating Gains/Losses	(26.5)	(28.3)	(14.9)	(12.8)	(6.7)
Net Interest Income	(17.4)	(14.8)	(8.4)	(3.6)	2.5
Foreign Currency Gains	0.4	6.1	0.6	0.0	0.0
Equity Method Gains	(11.1)	(8.0)	(3.4)	(3.4)	(3.4)
Pre-tax Profit	52.4	44.7	198.7	277.5	306.3
Net Profit	27.8	25.3	150.8	210.3	232.2
Net profit attributable to controlling interest	27.8	25.3	150.8	210.3	232.1
Growth (%)	50.6	(9.1)	496.5	39.4	10.4
NOPLAT	41.9	41.3	162.2	220.0	237.3
(+) Dep	74.5	71.4	72.3	70.7	70.2
(-) Wc	(129.5)	(112.7)	(35.9)	(0.1)	(10.3)
(-) Capex	66.8	64.9	78.8	85.3	87.0
OpFCF	179.1	160.5	191.6	205.6	230.8
3 Yr CAGR & Margins					
Revenue growth(3Yr)	17.4	11.3	14.9	15.5	13.4
OP growth(3Yr)	(3.0)	(19.3)	40.4	54.3	62.4
EBITDA growth(3Yr)	3.7	(10.7)	23.7	33.0	38.4
NP growth(3Yr)	37.1	(29.9)	101.3	96.2	109.4
OP margin (%)	2.1	1.8	4.3	5.1	5.3
EBITDA margin (%)	4.1	3.6	5.8	6.3	6.5
NP margin (%)	0.7	0.6	3.1	3.7	4.0

KEY INDICATOR

(Unit:KRW,x%)	2016	2017	2018F	2019F	2020F
Per share Data (w)					
EPS	709	644	3,835	5,351	5,907
BPS	15,334	15,593	19,232	24,374	29,997
DPS	350	350	350	350	350
Valuation (x,%)					
PER	67.9	131.8	33.0	23.6	21.4
PBR	3.1	5.4	6.6	5.2	4.2
EV/EBITDA	15.1	26.0	18.3	14.0	12.7
Dividend yield	0.7	0.4	0.3	0.3	0.3
PCR	11.6	21.8	54.4	141.5	16.5
PSR	0.5	0.8	1.0	0.9	0.9
Stabilities (%)					
Liabilities Ratio	208.5	236.7	188.0	137.3	93.6
Net debt/Equity	61.1	58.7	28.7	5.2	CASH
Net debt/EBITDA	263.5	271.4	80.7	14.4	CASH
Current ratio	145.8	131.7	126.9	117.6	145.5
Interest coverage ratio	4.5	4.9	25.3	79.6	n/a
Interest/revenue	0.9	0.6	0.4	0.3	0.2
Asset Structure					
IC	65.0	56.4	56.3	55.7	57.0
Cash + IC(%)	35.0	43.6	43.7	44.3	43.0
Capital Structure					
Debt/Asset	53.2	56.6	45.7	34.6	18.6
Equity/Asset	46.8	43.4	54.3	65.4	81.4

Stock Ratings

The stock investment opinion below is based on the expected return of the recommended stock over the next 12 months relative to the closing price of the day it is recommended.

STRONG BUY: Expected to produce a return of at least 50% from the closing price of the day the stock is recommended

BUY: Expected to produce a return between 15% and 50% from the closing price of the day the stock is recommended

HOLD: Expected to produce a return between -5% and 15% from the closing price of the day the stock is recommended

REDUCE: Expected to produce a return of less than -5% from the closing price of the day the stock is recommended

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Overweight: The industry's return is expected to outperform the average total return of the KOSPI over the next 12 months.

Neutral: The industry's return is expected to be in line with the average total return of KOSPI, over the next 12 months.

Underweight: The industry's return is expected to underperform the average total return of KOSPI, over the next 12 months.

Notes) The industry's return is on a risk-adjusted basis

Recent 2yr. Rating and TP Change

Hotel Shilla (008770 KS)

Date: 2018.06.05
 Rating: BUY
 TP: 160,000

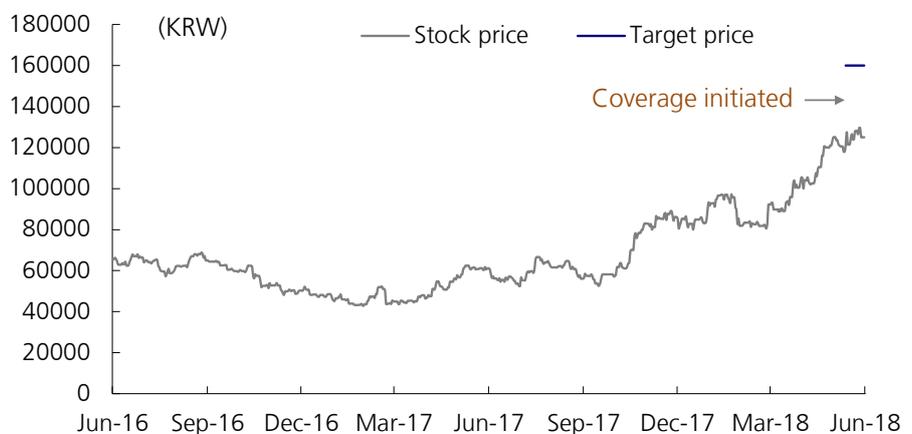
Date:
 Rating:
 TP:

Source: DBS Bank

Analyst Name: Regional Research Team

Recent 2yr. TP Change

Hotel Shilla (008770 KS)



Source: DBS Bank

Analyst Name: Regional Research Team

Company Focus

Hotel Shilla

Completed Date: 13 Jun 2018 09:42:30 (HKT)

Dissemination Date: 13 Jun 2018 17:14:13 (HKT)

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Company Focus

Hotel Shilla

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