

# Kiwoom Securities (039490)

Above
In line
Below

12M rating **BUY (Maintain)**  
 12M TP **W102,000** from W102,000  
 Up/downside **+26%**

## Stock Data

KOSPI (May 15, pt)	2,291
Stock price (May 15, KRW)	80,800
Market cap (USD mn)	1,589
Shares outstanding (mn)	22
52-Week high/low (KRW)	86,300/62,000
6M avg. daily turnover (USD mn)	3.3
Free float / Foreign ownership (%)	52.1/26.9
Major shareholders (%)	
DAOU Technology INC and 6 others	47.89
NPS	10.03

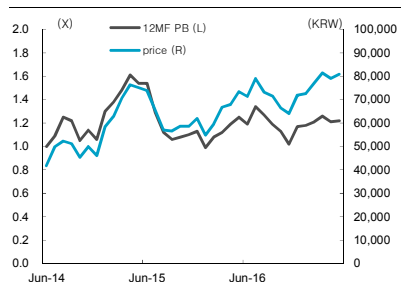
## Valuation

	2016A	2017F	2018F
PE (x)	8.8	8.9	8.3
PB (x)	1.3	1.3	1.1
ROE (%)	16.7	15.1	14.2
DY (%)	1.2	1.1	1.1
EPS (KRW)	8,142	9,123	9,710
BPS (KRW)	56,278	64,192	72,899

## Performance

	1M	6M	12M
Absolute (%)	4.3	22.4	18.1
Relative to KOSPI (%p)	(3.0)	6.0	1.7

## 12MF PBR trend



Source: WISEfn consensus

## Solid parent and bright subsidiaries

### What's new: NP driven by PI beats consensus by 30%

Kiwoom Securities (Kiwoom) reported 1Q17 controlling-interest NP of W60.6bn (+20.1% YoY, +10.4% QoQ), beating our estimate and the consensus by 21.8%, 30.3%, respectively. The brisk result was attributed to greater profit from principal investment (PI). The PI division recorded 1Q17 OP of W29.2bn, up 3.1% YoY and 67.8% QoQ. Equities-related OP reached W28bn, from which W10.8bn was dividend income from its Woori Bank stake and the remaining W17.2bn generated purely from equity investment.

### Pros: Subsidiary savings bank to start contributing to profit

Kiwoom YES Savings, having offered equity-linked loans from early 2017, should begin full-blown profit contribution. It posted 1Q17 OP of W3.4bn and NP W2.8bn. When excluding provision write-offs, the savings bank subsidiary should contribute OP of W20bn per quarter and ~W10bn per annum. This equals ~4% of the 2017 EBT estimate, not a huge amount in absolute terms but could result in bigger interest income if interest rates go up in future. We view this as a plus in terms of revenue stream diversity and less profit volatility.

### Cons: Commission income erodes on weak trading value

The 1Q17 separate broking commissions reached W38.8bn, falling 8% YoY and 4.2% QoQ. The drop was due to reduced daily average trading value marking W7.5tn in 1Q17. But during the period, Kiwoom's broking market share actually climbed. Specifically, its market share in retail broking, a core competitiveness, reached 26.5% as of 1Q17, climbing 0.9%p from end-2016. This appears to stem from daily average account openings holding at 1,100 (-25.1% YoY, -0.8% QoQ). As such, the broking fee erosion in 1Q17 should be temporary and once trading value recovers, profit growth should increase at a faster pace.

### Conclusion: Clear uptrend for trading value; Maintain TP W102,000

We maintain BUY and the TP of W102,000. The daily average trading value in April and May was W8.4tn, up 12.2% from 1Q17, and is on an upswing. The daily average so far in May is W9.5tn, up 17.6% MoM. The KOSPI could be further buoyed with corporate earnings going up led by Samsung Electronics and anticipation for policies that would boost the economy as the new administration takes the helm. Therefore, trading value should remain healthy and Kiwoom's commission income rebound after bottoming out in 1Q17. We maintain a positive

(W bn, %, %p)

	1Q17P				Change		2017F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Net revenue	113	139	24.0	113	(2.1)	11.2	508	476
SG&A expense	58	61	4.1	58	(16.5)	8.6	247	244
% of net revenue	52	44	(8.3)	51	(7.7)	(1.1)	49	51
Operating profit	54	79	45.4	55	13.5	13.3	261	231
Net profit	50	61	21.8	47	10.4	20.1	202	183

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view of Kiwoom not only for its solid performance at the parent but also the additional momentum fueled by greater profit contribution from its subsidiaries.

**Table 1. Earnings revisions**

(W bn, KRW %, %p)

	FY16			FY2017 (preview)		FY2017 (revised)					FY17 1Q review		
	1Q	4Q	Annual	1QF	Annual	1QF	2QF	3QF	4QF	Annual	vs. KIS est.	YoY	QoQ
Net revenue	125	125	474	113	480	139	126	122	120	508	24.0	11.2	(2.1)
Commission income	50	54	215	51	215	51	57	59	55	223	0.1	2.2	9.7
Interest income	30	40	138	41	173	38	40	42	43	163	(5.6)	27.6	5.5
Proprietary trading & others	45	31	120	21	92	50	29	22	22	122	142.4	10.3	(31.7)
SG&A	56	65	243	58	245	61	66	54	66	247	4.1	8.6	(16.5)
Labor costs	17	24	79	18	82	20	23	18	24	84	12.7	18.9	(25.3)
Operating profit	69	60	231	54	235	79	60	68	54	261	45.4	13.3	13.5
Non-operating profit	(0)	2	5	12	19	1	1	1	2	5	(95.0)	NM	(43.1)
Net profit before tax	69	62	236	66	254	79	61	69	56	266	20.4	14.8	11.4
Tax	18	15	56	16	61	18	15	17	13	64	16.0	0.2	13.4
Net profit from continuing biz	51	48	180	50	192	61	46	53	42	202	21.8	20.2	10.7
Net profit from discontinued biz	0	0	0	0	0	0	0	0	0	0	NM	NM	NM
Net profit (controlling-int.)	50	48	180	50	192	61	46	53	42	202	21.8	20.1	10.4
Net profit (minority-int.)	0	(0)	0	0	0	0	0	0	0	0	(10.5)	49.2	NM
<b>Total assets</b>	<b>7,019</b>	<b>8,857</b>	<b>8,857</b>	<b>9,088</b>	<b>10,137</b>	<b>9,549</b>	<b>9,906</b>	<b>10,310</b>	<b>10,637</b>	<b>10,637</b>	<b>5.1</b>	<b>36.0</b>	<b>16.4</b>
Securities	1,647	3,226	3,226	3,328	3,708	3,076	3,234	3,364	3,468	3,468	(7.6)	86.8	4.3
Liabilities	5,879	7,609	7,609	7,809	8,717	8,267	8,577	8,929	9,214	9,214	5.9	40.6	17.3
Shareholders' equity	1,140	1,248	1,248	1,279	1,420	1,283	1,329	1,381	1,423	1,423	0.3	12.5	10.7
Equity contributable to controlling shareholders	1,133	1,244	1,244	1,274	1,416	1,278	1,324	1,377	1,419	1,419	0.3	12.8	10.7
Retained earnings	850	979	979	1,010	1,153	1,021	1,068	1,120	1,162	1,162	1.1	20.2	14.4
Minority-interest	7	4	4	4	5	4	4	4	4	4	(4.8)	(40.4)	2.0
<b>Key indicators (KIS)</b>													
BPS	51,283	56,278	56,278	57,667	64,062	57,851	59,932	62,298	64,192	64,192	0.3	12.8	10.7
EPS	9,137	8,142	8,142	9,010	8,689	10,977	9,675	9,622	9,123	9,123	21.8	20.1	18.2
DPS (common shares)	0	850	850	0	950	0	0	0	950	950	NM	NM	NM
Cost-income ratio (% , %p)	44.7	51.9	51.3	51.9	53.4	43.6	52.7	44.2	55.0	48.7	(8.3)	(1.1)	(7.7)
ROE (% , %p)	18.1	15.5	16.7	15.8	14.4	19.2	14.2	15.6	12.1	15.1	3.4	1.2	0.0

Source: Company data, Korea Investment & Securities

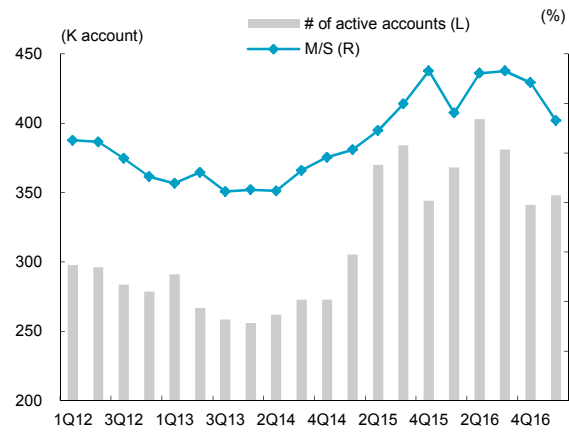
**Table 2. OP of consolidated subsidiaries**

(W bn, %)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Kiwoom Securities	16	17	26	20	60	66	37	13	54	35	39	47	55
Kiwoom Savings Bank	(3)	3	5	1	4	7	12	7	9	6	6	8	9
Kiwoom YES Savings												0	3
Kiwoom Asset Management	(0)	1	3	3	3	4	11	2	4	5	4	2	5
Kiwoom Investment	0	2	2	1	0	2	0	1	0	0	1	(0)	0
Kiwoom Indonesia	0	0	0	0	0	(0)	(0)	(0)	0	0	0	0	0
Others	1	(0)	3	0	5	5	(3)	6	3	1	4	3	7
Total	14	22	39	25	73	83	58	28	69	48	54	60	79
% of securities in OP	110.5	76.5	68.1	78.0	82.9	79.4	64.5	45.3	78.2	74.5	72.9	78.3	69.5

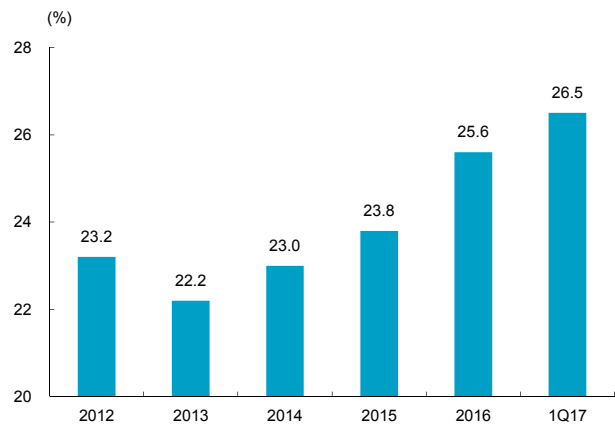
Source: Company data, Korea Investment & Securities

**Figure 1. Trading M/S and number of active accounts**



Source: Company data, Korea Investment & Securities

**Figure 2. M/S in individual investors' trading**



Source: Company data, Korea Investment & Securities

**Balance sheet**

FY-ending Mar. (W bn)	2015A	2016A	2017F	2018F	2019F
Cash & deposits	2,555	2,941	3,555	4,058	4,623
Securities	1,528	3,226	3,468	3,958	4,506
Trading securities	1,330	2,623	2,942	3,311	3,798
Sec. available for sale	154	541	453	574	635
Sec. held to maturity	0	4	5	5	5
Sec. using equity method	44	58	68	68	68
Derivatives-combined securities	0	0	0	0	0
Derivatives	5	12	10	10	10
Loans	1,537	2,132	2,231	2,556	2,923
Allowance for credit loss	55	54	67	74	86
Tangible fixed assets	78	85	91	95	99
Cash management account & lease	0	0	0	0	0
Others	505	515	1,349	1,540	1,760
<b>Total assets</b>	<b>6,152</b>	<b>8,857</b>	<b>10,637</b>	<b>12,143</b>	<b>13,835</b>
Deposits	3,307	4,192	5,132	5,863	6,685
Customers' deposits	3,300	3,953	4,609	5,133	5,726
CMA & guarantee deposits for lease	0	0	0	0	0
Borrowings	1,222	2,892	2,743	3,015	3,318
Sec. sold under reverse resale	265	789	938	1,072	1,222
Sec. sold	54	174	196	204	213
Derivatives-combined sec. sold	272	684	649	742	846
Derivatives	4	10	15	15	15
Debenture	626	1,235	944	983	1,022
Short-term notes issued	0	0	0	0	0
Others	514	525	1,340	1,649	2,001
<b>Total liabilities</b>	<b>5,042</b>	<b>7,609</b>	<b>9,214</b>	<b>10,528</b>	<b>12,004</b>
Shareholders' equity	111	111	110	110	110
Capital surplus	188	190	190	190	190
Capital adjustment	(21)	(31)	(28)	(30)	(31)
Accum. other compr. income	10	(5)	(15)	(15)	(15)
Retained earnings	815	979	1,162	1,356	1,572
Treasury stock acquisition price	0	0	0	0	0
<b>Total shareholders' equity</b>	<b>1,110</b>	<b>1,248</b>	<b>1,423</b>	<b>1,616</b>	<b>1,831</b>

**Key financial indicator**

FY-ending Mar.	2015A	2016A	2017F	2018F	2019F
<b>Profitability</b>					
ROE	18.8	16.7	15.1	14.2	13.9
ROA	3.5	2.7	2.1	1.9	1.8
Brokerage commission rate (bp)	2.4	2.6	2.5	2.5	2.4
Comm rate of collective inv. sec (bp)	3.8	0.5	8.3	9.5	9.9
<b>Operating base</b>					
No. of branches	1	1	1	1	1
No. of employees	570	598	598	598	598
Equity trading	730	691	700	727	754
Mutual funds sold	5,854	12,546	12,989	13,251	13,518
Customer deposits	3,307	4,192	5,132	5,863	6,685
<b>Asset composition (excl. customer deposits)</b>					
Invested assets	90.4	92.4	87.7	87.7	87.7
Cash & deposits	41.5	33.2	33.4	33.4	33.4
Equities	7.1	10.2	8.9	8.9	8.9
Bonds	9.0	13.9	10.9	10.8	10.8
Collective investment securities	4.5	4.7	4.7	4.7	4.7
Derivatives & other securities	3.0	8.9	8.8	8.8	8.8
Loans & other assets	25.4	21.6	21.0	21.0	21.1
Non-invested assets	9.6	7.6	12.3	12.3	12.3

**Income statement**

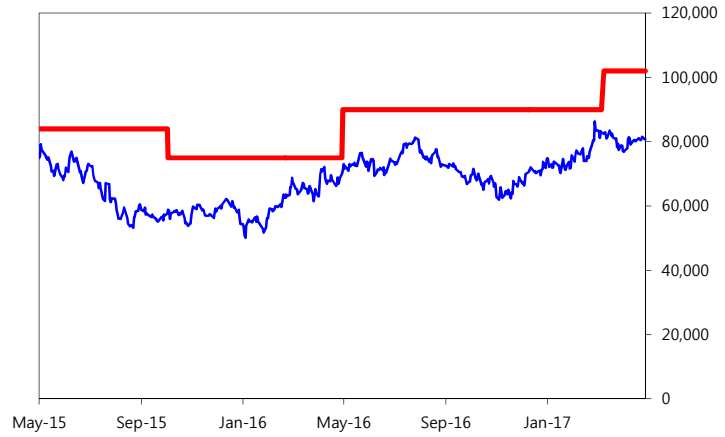
FY-ending Mar. (W bn)	2015A	2016A	2017F	2018F	2019F
Operating revenue	823	944	1,029	1,052	1,109
Commission	268	282	270	269	274
Brokerage	186	173	175	178	181
Underwriting	21	19	16	17	18
Collective inv. sec.	8	31	45	52	53
Derivatives-combined sec.	0	0	0	0	0
Others	53	59	34	21	21
Interest	172	194	232	268	310
Securities & derivatives	306	393	504	498	498
Others	77	74	23	18	27
<b>Operating expenses</b>	<b>357</b>	<b>470</b>	<b>521</b>	<b>521</b>	<b>538</b>
Commission	60	67	47	41	42
Interest	51	56	69	79	92
Securities & derivatives	211	306	395	392	392
Others	35	41	9	9	12
<b>Net revenue</b>	<b>466</b>	<b>474</b>	<b>508</b>	<b>531</b>	<b>571</b>
SG&A	225	243	247	253	261
Labor costs	73	79	84	85	86
<b>Operating profit</b>	<b>241</b>	<b>231</b>	<b>261</b>	<b>278</b>	<b>311</b>
Non-operating profit	14	12	15	15	15
Non-operating expenses	6	7	10	9	9
Earnings before tax	250	236	266	284	316
Income taxes	60	56	64	69	77
<b>Net profit</b>	<b>190</b>	<b>180</b>	<b>202</b>	<b>215</b>	<b>239</b>

**Valuation & growth**

FY-ending Mar.	2015A	2016A	2017F	2018F	2019F
BPS	49,913	56,278	64,192	72,899	82,627
EPS	8,585	8,142	9,123	9,710	10,833
DPS	850	850	850	850	850
Payout Ratio	9.9	10.4	9.3	8.8	7.8
PB (year-end/average)	1.2/1.3	1.3/1.2	1.3	1.1	1.0
PB (high/low)	1.7/0.9	1.5/0.9			
PE (year-end/average)	7.2/7.5	8.8/8.4	8.9	8.3	7.5
PE (high/low)	10.0/5.3	10.1/6.1			
Dividend Yield	1.4	1.2	1.1	1.1	1.1
<b>Efficiency &amp; stability</b>					
Income-to-costs ratio	146.6	145.4	155.9	164.4	172.8
SG&A / net revenue	48.2	51.3	48.7	47.7	45.6
Simple leverage	5.5	7.1	7.5	7.5	7.6
Effective leverage	2.6	3.9	4.2	4.3	4.4
<b>Growth rate</b>					
Total assets	30.5	44.0	20.1	14.2	13.9
Total shareholders' equity	20.1	12.5	14.0	13.5	13.3
Collective inv. securities	77.8	114.3	3.5	2.0	2.0
Customer deposits	35.0	26.8	22.4	14.3	14.0

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Kiwoom Securities (039490)	05-20-15	BUY	W84,000
	10-20-15	BUY	W75,000
	05-17-16	BUY	W90,000
	03-27-17	BUY	W102,000



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■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Mar 31, 2017)**

BUY	Hold	Underweight (Sell)
77.4%	21.7%	0.9%

Note: % of companies under coverage with this rating

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

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Prepared by: Seoyeon Kim

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