

BGF Retail (027410)

Above

In line

Below

12M rating **BUY (Maintain)**

12M TP **W270,000** from W240,000

Up/downside **+39%**

Stock Data

KOSPI (May 9, pt)	1,968
Stock price (May 9, KRW)	194,500
Market cap (USD mn)	4,133
Shares outstanding (mn)	25
52-Week high/low (KRW)	231,500/115,500
6M avg. daily turnover (USD mn)	14.4
Free float / Foreign ownership (%)	38.7/27.3
Major shareholders (%)	
Seok-Jo Hong and 19 others	58.8

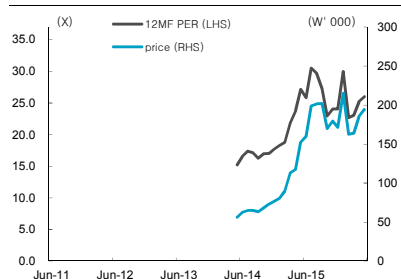
Valuation

	2015A	2016F	2017F
PE (x)	137.4	24.9	20.2
PB (x)	27.5	5.1	4.2
ROE (%)	22.8	22.6	22.9
EV/EBITDA (x)	12.6	12.1	9.3
EPS (KRW)	1,248	7,804	9,626
BPS (KRW)	6,243	37,823	46,256

Performance

	1M	6M	12M
Absolute (%)	1.6	15.1	61.4
Relative to KOSPI (%p)	1.8	17.9	67.1

12MF PE trend



Source: WISEfn consensus

Earnings surprise, momentum to firm steadily

What's new: 1Q16 OP W27.7bn, down 34.4% YoY

BGF Retail (BGF) posted 1Q16 earnings that beat our expectations. While OP shrank 34.4% YoY to W27.7bn, adjusted OP surged 60% YoY, stripping out one-off gains from 1Q15. Net store additions reached 283 units, and sales climbed 23.5% YoY to W1.02tn. BGF's same store sales (SSS) improved 9.0% excluding cigarette sales. In addition, the sales weighting of fresh foods edged up 1.0%p YoY to 6.4% as lunch box sales surged 214% YoY.

Pros: Lunch box-driven growth momentum

1Q16 OP significantly beat expectations. Stripping out one-off gains, OP surged from W17.0bn in 1Q15 to W27.7bn as growing lunch box sales bolstered traffic, leading to notable PB product sales growth. Furthermore, more high-margin items appear to be improving profitability, further fueling demand to operate a franchise CVS. Going forward, we see further growth upside backed by lunch boxes as fresh foods account for only 6.4% of total sales.

Cons: Be wary of excessive expectations

Adjusted OP growth of 60% is unlikely to continue through the rest of this year. The exclusion of VAN commissions will continue to erode earnings until 2Q16, and lunch box sales' contribution will be lower in peak season given its limited sales weighting. But, OP growth should accelerate by end-2016, and we forecast 30% OP growth in 2017. Overall, earnings momentum should become increasingly visible after being overshadowed by the cigarette price hike last year.

Conclusion: Top retail pick, raise TP 12.5% to W270,000

We recommend BGF as our top retail pick, and raise our TP from W240,000 to W270,000 as we revise up our 2016 full-year EPS forecast by 13.2% and maintain a target PE multiple of 35.0x. We raise our estimate of net store additions in 2016 from 1,000 to 1,200 stores. In fact, stores appear to have increased by about 120 units on a net basis in April. As BGF's strong earnings are backed by a virtuous cycle of successful product launches and the subsequent store expansion, growth momentum should firm over the long term. Overall, it is time to focus on improving earnings momentum rather than the retail sector's relatively-high PE.

(W bn, %, %p)

	1Q16P				Change		2016F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	1,116	1,092	(2.1)	1,069	(3.7)	23.5	5,103	5,030
OP	24	28	14.0	29	(22.0)	(34.4)	228	205
OP margin	2.2	2.5	0.4	2.7	(0.6)	(2.2)	4.5	4.1
EBT	28	39	38.2	31	(2.6)	(10.0)	250	228
NP	22	29	34.5	24	(16.0)	(9.8)	193	172

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Table 1. Valuation

	Amount	Unit
2016F NP (A)	193	W bn
Target PE (B)	35.0	x
Enterprise value (C=A*B)	6,767	W bn
Outstanding shares (D)	24.6	mn shares
Target price (C/D*1000)	274,626	KRW

Source: Korea Investment & Securities

Table 2. Earnings revisions

(W bn, %)

	2016F			2017F		
	Previous	Revised	%	Previous	Revised	%
Sales	5,074	5,103	0.6	5,766	5,885	2.1
Operating profits	210	228	8.5	248	287	15.9
Earnings before tax	226	250	10.6	268	309	15.2
Controlling-interest NP	171	193	13.2	202	238	18.0

Source: Korea Investment & Securities

Table 3. Full-year earnings outlook

(store, W mn, W bn, %)

	2013	2014	2015	2016F	2017F	2018F
Number of stores	7,939	8,408	9,409	10,609	11,809	13,009
Net increases	1	469	1,001	1,200	1,200	1,200
Sales per store (W mn)	387	404	477	502	517	541
Gross sales	3,130	3,368	4,334	5,103	5,885	6,820
Growth	7.5	7.6	28.7	17.7	15.3	15.9
CVS	3,076	3,303	4,251	5,022	5,792	6,712
Others	8	7	29	18	15	16
Gross profits	743	799	900	1,003	1,134	1,304
GPM	23.7	23.7	20.8	19.7	19.3	19.1
SG&A	638	675	716	776	847	934
Growth	2.8	5.8	6.1	8.3	9.2	10.3
Operating profits	105	124	184	228	287	370
Growth	64.7	18.2	47.9	24.1	26.0	28.8
OPM	3.4	3.7	4.2	4.5	4.9	5.4
Non-OP	(12)	12	13	23	22	27
Earnings before tax	93	136	196	250	309	397
Growth	76.0	46.1	44.2	27.5	23.3	28.6
Tax expenses	23	35	44	56	69	88
Tax rate	24.9	25.5	22.2	22.2	22.2	22.2
Net profits	70	101	153	195	240	309
Growth	97.4	44.9	50.6	27.5	23.3	28.6
Controlling NP	69	102	152	193	238	307
Growth	96.2	47.5	49.2	27.5	23.3	28.6

Source: Company data, Korea Investment & Securities

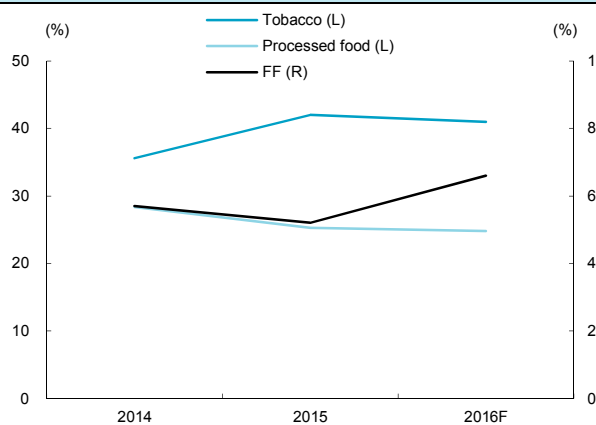
Table 4. Quarterly earnings outlook

(W bn, %)

	2014				2015				2016F			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QP	2QF	3QF	4QF
Sales	733	850	911	874	884	1,110	1,206	1,134	1,092	1,282	1,401	1,327
Growth	3.1	7.0	8.0	11.8	20.6	30.6	32.4	29.8	23.5	15.5	16.1	17.0
Gross profits	173	206	219	202	213	230	238	219	212	259	276	256
Growth	23.6	24.2	24.0	23.1	24.1	20.7	19.7	19.3	19.4	20.2	19.7	19.3
SG&A	162	167	174	172	171	178	183	184	184	193	199	201
Growth	3.7	4.1	14.0	1.9	5.8	6.6	5.1	7.0	7.8	8.5	8.7	9.5
Operating profits	11	39	44	30	42	51	54	36	28	65	77	55
Growth	26.1	4.5	19.0	36.3	278.0	33.1	23.5	17.4	(34.4)	27.5	41.3	55.0
OPM	1.5	4.5	4.8	3.5	4.8	4.6	4.5	3.1	2.5	5.1	5.5	4.2
Non-OP	0	5	3	3	1	4	3	4	11	4	3	4
EBT	12	44	47	34	43	56	58	40	39	70	80	59
Growth	91.2	7.2	101.1	47.5	260.1	27.5	23.6	17.8	(10.0)	24.7	38.6	48.4
Tax	3	10	11	11	11	14	14	5	9	16	18	13
Tax rate	28.8	21.9	23.5	31.8	25.6	24.3	24.0	13.0	22.6	22.6	22.6	22.1
Net profits	9	34	36	23	32	42	44	35	30	54	62	46
Growth	102.8	5.6	143.9	22.3	276.4	23.7	22.7	50.4	(6.4)	27.6	41.2	32.9
NP of controlling interest	9	34	35	23	32	42	43	35	29	54	61	49
Growth	128.7	8.6	115.5	34.8	260.0	23.6	21.2	47.7	(9.8)	28.0	43.2	42.0

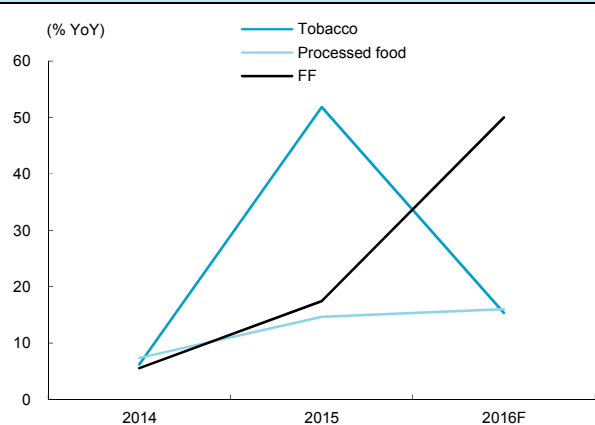
Source: Company data, Korea Investment & Securities

Figure 1. Major product groups sales weighting



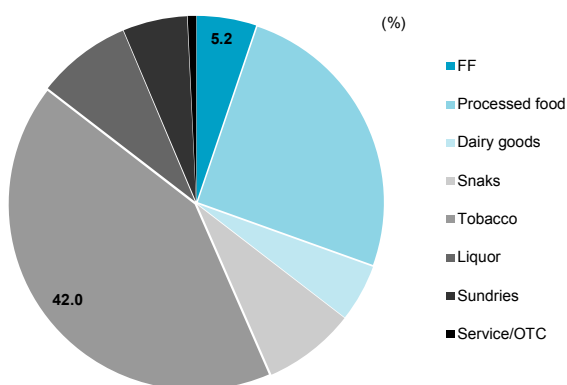
Source: Company data, Korea Investment & Securities

Figure 2. Sales growth by major product group



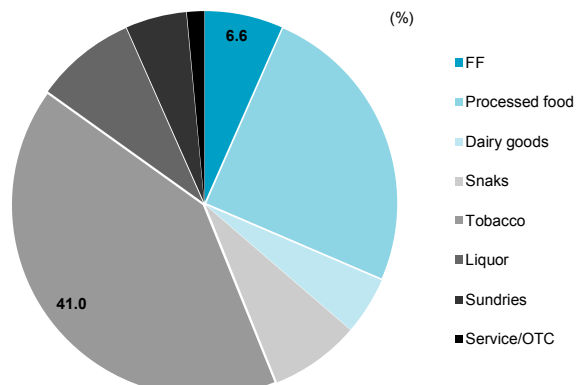
Source: Company data, Korea Investment & Securities

Figure 3. 2015 product mix outlook

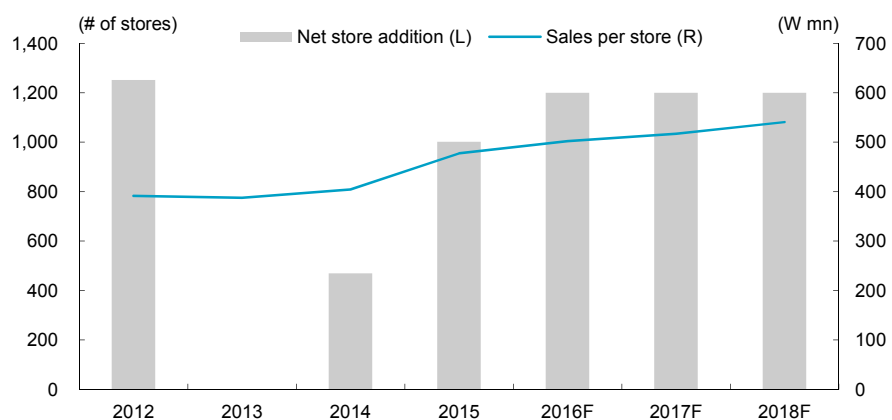


Source: Company data, Korea Investment & Securities

Figure 4. 2016F product mix outlook



Source: Company data, Korea Investment & Securities

Figure 5. Net store addition and sales per store

Source: Company data, Korea Investment & Securities

Company overview

No. 1 domestic CVS player that operates 'CU' franchise brand. After starting the CVS business with the "Family Mart" brand license in 1990, BGF Retail terminated the license contract and launched new brand CU in 2012. In 2014, the company was listed while Family Mart Japan sold its stakes in BGF Retail. The company continues top-line growth on new store additions and runs the CVS-exclusive business structure backed by BGF Logis, BGF Food, BGF Cashnet and other subsidiaries, contributing to the domestic CVS industry growth.

Balance sheet

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
Current assets	723	948	1,105	1,307	1,575
Cash & cash equivalent	211	152	153	197	249
Accounts & other receivables	38	50	58	67	78
Inventory	63	53	62	71	83
Non-current assets	615	674	760	864	969
Investment assets	149	196	248	316	379
Tangible assets	369	374	389	407	425
Intangible assets	47	52	61	70	81
Total assets	1,338	1,622	1,865	2,170	2,544
Current liabilities	599	690	763	853	941
Accounts & other payables	441	514	595	668	740
ST debt & bond	75	63	68	73	78
Current portion of LT debt	8	3	0	0	0
Non-current liabilities	167	158	163	168	174
Debentures	20	0	0	0	0
LT debt & financial liabilities	110	129	129	129	129
Total liabilities	766	848	926	1,021	1,115
Controlling interest	559	773	937	1,146	1,423
Capital stock	25	25	25	25	25
Capital surplus	17	104	104	104	104
Other Reserves	5	(5)	(5)	(5)	(5)
Retained earnings	512	649	813	1,022	1,299
Minority interest	13	1	2	4	6
Shareholders' equity	572	774	939	1,150	1,429

Cash flow

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
C/F from operating	260	359	363	427	496
Net profit	101	153	195	240	309
Depreciation	91	93	94	97	101
Amortization	14	15	17	19	21
Net incr. in W/C	37	77	56	69	64
Others	17	21	1	2	1
C/F from investing	(256)	(445)	(330)	(353)	(415)
CAPEX	(68)	(93)	(110)	(115)	(120)
Decr. in fixed assets	2	1	1	1	1
Incr. in investment	(169)	(331)	(51)	(66)	(63)
Net incr. in intangible assets	(9)	(15)	(26)	(28)	(32)
Others	(12)	(7)	(144)	(145)	(201)
C/F from financing	7	27	(32)	(30)	(29)
Incr. in equity	13	92	0	0	0
Incr. in debts	4	(45)	(0)	2	3
Dividends	(10)	(18)	(30)	(30)	(30)
Others	0	(2)	(2)	(2)	(2)
C/F from others	0	0	0	0	0
Increase in cash	12	(59)	1	44	52

Note: Based on K-IFRS (consolidated)

Income statement

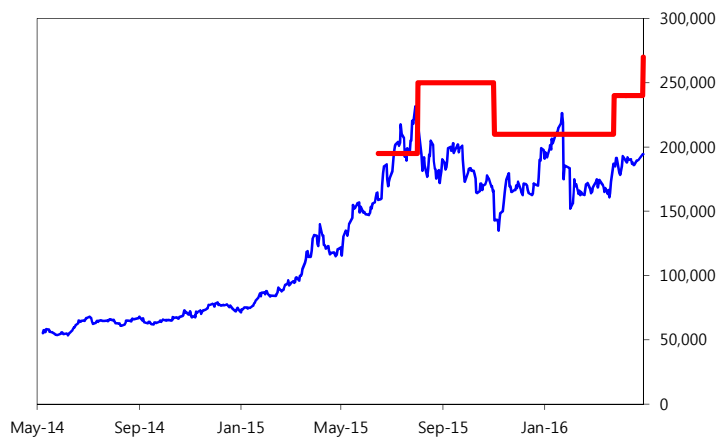
FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
Sales	3,368	4,334	5,103	5,885	6,820
COGS	2,569	3,434	4,099	4,751	5,516
Gross profit	799	900	1,003	1,134	1,304
SG&A expense	675	716	776	847	934
Operating profit	124	184	228	287	370
Financial income	19	20	20	23	28
Interest income	17	18	20	23	28
Financial expense	11	10	9	9	9
Interest expense	11	9	9	9	9
Other non-operating profit	4	2	11	6	7
Gains (Losses) in associates, subsidiaries and JV	1	1	1	1	1
Earnings before tax	136	196	250	309	397
Income taxes	35	44	56	69	88
Net profit	101	153	195	240	309
Net profit of controlling interest	102	152	193	238	307
Other comprehensive profit	(4)	0	0	0	0
Total comprehensive profit	97	153	195	240	309
Total comprehensive profit of controlling interest	98	152	194	239	307
EBITDA	229	291	339	403	491

Key financial data

FY-ending Dec.	2014A	2015A	2016F	2017F	2018F
per share data (KRW)					
EPS	848	1,248	7,804	9,626	12,376
BPS	4,638	6,243	37,823	46,256	57,438
DPS	600	1,200	1,200	1,200	1,200
Growth (%)					
Sales growth	7.6	28.7	17.7	15.3	15.9
OP growth	18.2	47.9	24.1	26.0	28.8
NP growth	47.5	49.2	27.5	23.3	28.6
EPS growth	48.3	47.2	525.4	23.3	28.6
EBITDA growth	7.3	27.2	16.5	18.8	21.8
Profitability (%)					
OP margin	3.7	4.2	4.5	4.9	5.4
NP margin	3.0	3.5	3.8	4.1	4.5
EBITDA margin	6.8	6.7	6.7	6.9	7.2
ROA	8.1	10.3	11.2	11.9	13.1
ROE	27.0	22.8	22.6	22.9	23.9
Dividend yield	0.8	0.7	0.6	0.6	0.6
Dividend payout ratio	14.5	19.6	15.4	12.5	9.7
Stability					
Net debt (W bn)	(345)	(590)	(727)	(1,079)	(1,318)
Debt/equity ratio (%)	45.8	31.6	26.0	6.5	5.6
Valuation (X)					
PE	90.2	137.4	24.9	20.2	15.7
PB	16.5	27.5	5.1	4.2	3.4
EV/EBITDA	6.7	12.6	12.1	9.3	7.1

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
BGF Retail (027410)	06-26-15	BUY	W195,000
	08-13-15	BUY	W250,000
	11-13-15	BUY	W210,000
	04-05-16	BUY	W240,000
	05-10-16	BUY	W270,000



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■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Mar 31, 2016)**

BUY	Hold	Underweight (Sell)
79.1%	19.1%	1.8%

Note: % of companies under coverage with this rating

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

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
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