

12M rating **BUY (Maintain)**  
12M TP **W700,000** from W790,000  
Up/downside **+34%**

**Stock Data**

KOSPI (Sep 23, pt)	2,009
Stock price (Sep 23, KRW)	521,000
Market cap (USD mn)	7,578
Shares outstanding (mn)	16
52-Week high/low (KRW)	685,000/486,500
6M avg. daily turnover (USD mn)	17.9
Free float / Foreign ownership (%)	59.6/44.7
Major shareholders (%)	
LG Corp and 1 others	34.3

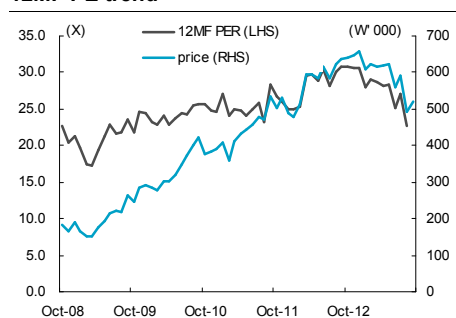
**EPS revision (KIS estimates, KRW)**

	Previous	Revised	(%)
2013F	22,482	20,310	(9.7)
2014F	26,782	23,659	(11.6)
2015F	31,161	27,448	(11.9)

**Performance**

	1M	6M	12M
Absolute (%)	3.2	(11.4)	(16.6)
Relative to KOSPI (%p)	(4.3)	(14.5)	(17.0)

**12MF PE trend**



Source: WISEfn consensus

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## Lowered expectations, focus on solid 2014 growth outlook

### 3Q13F preview: Weak beverages to weigh on earnings, but negatives already known

We estimate LG Household & Healthcare (LG H&H) will post 3Q13F sales of W1,167.6bn (10.8% YoY) and OP of W147.1bn (12% YoY), below our previous estimates and August consensus. However, disappointing earnings have been anticipated as the beverage business continues to stagnant since 2Q13 on unfavorable weather and as OPM erodes in Japan in 2H13 on increased marketing. However, LG H&H should continue to outperform peers despite the lower expectations.

### Solid organic growth in 2014, renewed focus on overseas business

Without having to rely on M&As, LG H&H should post 11.6% sales growth in 2014 and 15.9% OP growth, contrary to current concerns over growth visibility. Of note, existing businesses continue to post growth in 2013 despite poor conditions, including a soft economy (sales up 4.5% YoY, OP up 5.5% YoY). Organic growth should continue in 2014 given a lower comparison base and improving external factors. Meanwhile, overseas businesses are also solid. Specifically, overseas businesses should account for 15.8% of 2013 sales and 20.2% of OP, after only two years of full-scale operations. TheFaceshop continues to boom and the Japanese business should finally enter a growth phase in 2014 following restructuring and more aggressive marketing.

### Rebound likely amid lower expectations and fading 2014 growth concerns

Given the weak beverage business, we lower our OP estimates for 2013 and 2014 by 7.8% and 11.1%, respectively. As such, we revise down our TP from W790,000 to W700,000 (29x 2014 PE). However, shares should rebound as the lower earnings outlook was already reflected in August-September pullbacks and as growth should be solid in 2014, contrary to concerns. Overall, we recommend focusing on the improvements in domestic earnings and overseas momentum. We reiterate BUY.

	2011A	2012A	2013F	2014F	2015F
Sales (W bn)	3,456	3,896	4,334	4,837	5,342
OP (W bn)	370	446	503	583	667
EBT (W bn)	372	430	476	554	643
NP (W bn)	265	304	338	394	457
EBITDA (W bn)	463	554	639	737	839
Net debt (W bn)	470	650	691	625	479
OP margin (%)	10.7	11.4	11.6	12.1	12.5
ROE (%)	29.7	27.6	25.4	24.3	23.2
Dividend yield (%)	0.7	0.6	0.7	0.7	0.8
EPS (KRW)	15,786	18,126	20,310	23,659	27,448
chg. (% YoY)	14.9	14.8	12.0	16.5	16.0
BPS (KRW)	60,295	71,816	86,708	104,697	126,101
DPS (KRW)	3,500	3,750	3,800	3,850	4,000
PE (x)	30.9	36.2	25.7	22.0	19.0
PB (x)	8.1	9.1	6.0	5.0	4.1
EV/EBITDA (x)	18.0	20.4	14.5	12.5	10.8

### What is the report about?

- 3Q13F earnings preview and outlook by business
- Examine organic growth visibility by business given excessive concerns over 2014 profit visibility

### Still attractive over the long-term in the view of lowered expectation

LG H&H pulled back sharply in August and September as an initial decline due to rebalancing by global funds was exacerbated by 2014 earnings visibility concerns. However, 2014 sales should expand 11.6% and OP 15.9%, without additional M&As. This would be similar to the growth in 2005-2009 (sales CAGR 9.5%, OP 15.5%), which was fueled by M&A momentum. We anticipate growth in each division: 1) new brands and product line extensions in the dominant household goods market; 2) rapid growth by TheFaceshop in Korea and abroad and higher sales from new department store cosmetics brands for the cosmetics division; and 3) channel expansion for the beverage unit.

We believe upside potential is solid as expectations have waned since the pullback, especially given the solid 2014 outlook. While growth will likely slow (2013-2017 EPS CAGR 16.1%, versus 2015-2012 EPS CAGR 23.8%), we expect stable global growth that will attract investors, considering the larger top-line and the slow global economic growth. Of note, we cut our TP from W790,000 to W700,000 (29x 2014 PE) to reflect the lower earnings outlook. Target PE of 29x is 20% discounted to historical peak of 36.6x.

**Table 1. 3Q13F preview**

(W bn, %)

		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13P	3Q13F	4Q13F	% YoY			
										1Q13P	2Q13F	3Q13F	4Q13F
HG (Household Goods)	Sales	338	287	373	269	376	331	421	313	11.4	15.5	12.9	16.6
	OP	46	21	54	24	51	26	59	23	11.8	24.0	9.7	(3.6)
	OP margin (%)	13.5	7.3	14.5	8.8	13.6	7.8	14.1	7.3				
	% of total sales	34.7	29.2	35.4	30.2	35.1	30.8	36.1	30.8				
Cosmetics	Sales	391	378	343	368	433	415	391	433	10.8	10.0	14.1	17.5
	OP	70	51	45	46	79	61	54	55	12.5	18.6	20.0	19.6
	OP margin (%)	18.0	13.5	13.1	12.5	18.3	14.6	13.8	12.7				
	% of total sales	40.2	38.5	32.5	41.4	40.4	38.6	33.5	42.5				
Beverage	Sales	244	317	338	253	264	329	355	272	8.2	3.9	5.1	7.6
	OP	14	33	32	10	16	34	34	14	12.0	2.1	4.8	28.4
	OP margin (%)	5.8	10.5	9.5	3.8	6.0	10.3	9.5	5.0				
	% of total sales	25.1	32.3	32.1	28.4	24.6	30.6	30.4	26.7				
Total	Sales	972	981	1,054	890	1,072	1,076	1,168	1,018	10.3	9.6	10.8	14.4
	OP	130	105	131	79	146	120	147	90	12.3	14.5	12.0	13.7
	OP margin (%)	13.4	10.7	12.5	8.9	13.6	11.2	12.6	8.9				

Source: Company data, Korea Investment &amp; Securities

**Table 2. Annual earnings revisions**

(W bn, %, KRW)

	Previous		Revised		% diff.	
	2013F	2014F	2013F	2014F	2013F	2014F
Sales	4,535	5,146	4,334	4,837	(4.4)	(6.0)
Operating profit	546	656	503	583	(7.8)	(11.1)
Pre-tax profit	518	627	476	554	(8.2)	(11.6)
Net profit	378	458	347	405	(8.2)	(11.7)
Controlling Shareholders' NP	369	446	338	394	(8.2)	(11.6)
OP margin (%)	12.0	13.2	11.6	12.1		
EPS	22,482	26,782	20,310	23,659	(9.7)	(11.6)

Source: Company data, Korea Investment &amp; Securities

**Table 3. Comparison between KIS estimates, company guidance and August consensus**

(W bn, %)

2012A			2013F				% YoY			
			Company guidance	Consensus	KIS (Previous)	KIS (Revised)	Company guidance	Consensus	KIS (Previous)	KIS (Revised)
Total	Sales	3,896	4,550	4,368	4,535	4,334	16.8	12.1	16.4	11.2
	Operating profit	446	535	513	546	503	20.0	15.2	22.4	13.0
	OP margin (%)	11.4	11.8	11.8	12.0	11.6				

Source: Company data, Korea Investment &amp; Securities

**Table 4. Annual earnings by division**

(W bn, %)

		Earnings						% YoY				
		2010	2011	2012	2013F (Previous)	2013F (Revised)	2014F	2011	2012	2013F (Previous)	2013F (Revised)	2014F
HG	Sales	1,089	1,182	1,266	1,371	1,442	1,553	8.5	7.2	8.3	13.9	7.7
	OP	124	136	144	159	159	176	9.0	6.4	10.2	10.2	10.6
	OP margin (%)	11.4	11.5	11.4	11.6	11.0	11.3					
	% of total sales	38.5	34.2	32.5	30.2	33.3	32.1					
Cosmetics	Sales	1,021	1,227	1,479	1,863	1,672	1,919	20.2	20.5	26.0	*13.0	14.8
	OP	149	179	212	273	249	289	20.3	18.5	28.8	*17.1	16.4
	OP margin (%)	14.6	14.6	14.4	14.7	14.9	15.1					
	% of total sales	36.1	35.6	38.0	41.1	38.6	39.7					
Beverage	Sales	716	1,043	1,151	1,301	1,220	1,365	45.7	10.3	13.0	6.0	11.9
	OP	74	86	89	113	96	118	16.8	3.7	27.1	7.7	23.0
	OP margin (%)	10.3	8.2	7.7	8.7	7.9	8.7					
	% of total sales	25.3	30.2	29.5	28.7	28.2	28.2					
Total	Sales	2,826	3,452	3,896	4,535	4,334	4,837	22.1	12.9	16.4	11.2	11.6
	OP	347	401	446	546	503	583	15.5	11.2	22.4	13.0	15.9
	OP margin (%)	12.3	11.6	11.4	12.0	11.6	12.1					

Note: \* The main reason for a change in 2013F cosmetics earnings is the reclassification of sales from LG H&H's acquired business in Japan. Previously, the sales were recognized in cosmetics only but now over household goods and cosmetics. If the previous classification is applied, LG H&H's 2013F household sales would grow 5.5% YoY and OP 2.9% YoY and cosmetics sales rise 20% YoY and OP 21.7% YoY.

Source: Company data, Korea Investment &amp; Securities

**Table 5. Cosmetics peer comparison**

	Company	Ticker code	Rating	Price	Mkt cap	PER(x)			EPS CAGR (%)	PEG (x)	Sales(% YoY)		OPM (%)		ROE (%)	
				(KRW/USD)	(W bn)	2012A	2013F	2014 F	(12-14F)	2014F	2013F	2014F	2013F	2014F	2013F	2014F
Major	AmorePacific	090430.KR	BUY	914,000	5,442	31.1	21.8	18.2	13.4	1.0	8.1	12.1	11.9	12.6	11.8	12.8
	LG H&H	051900.KR	BUY	521,000	8,075	36.2	25.7	22.0	14.3	1.4	11.2	11.6	11.6	12.1	25.4	24.3
Mid-end	TheFaceshop	NM	NM	NM	NM	NM	NM	NM	NM	NM	27.5	19.4	19.4	19.4	NM	NM
	Able C&C	078520.KR	NR	41,350	465	19.0	21.4	17.3	(24.2)	0.6	5.3	11.9	5.1	7.0	13.9	15.6
	AmoreG	002790.KR	NR	393,000	150	24.5	20.3	17.1	9.7	0.8	12.9	14.0	14.7	15.5	13.9	15.6
OEM/ODM	Cosmax	044820.KR	BUY	47,350	624	28.4	26.7	18.4	29.9	0.5	21.6	26.5	8.0	9.2	27.7	31.5
	Kolmar Korea	161890.KR	BUY	22,500	477	26.6	15.0	13.2	16.4	0.5	9.3	14.0	8.3	8.8	26.1	25.7
Local avg.						27.6	21.8	17.7	9.9	0.8	13.7	15.7	11.3	12.1	19.8	20.9
Japan	Shiseido	4911.JP		17	6,882	NA	32.0	27.2	NA	4.1	7.4	2.6	5.6	6.2	7.2	7.9
	Kao	4452.JP		30	15,646	21.6	21.2	19.4	23.7	2.4	5.3	2.7	9.3	9.8	12.2	13.0
	Kose	4922.JP		28	1,686	18.6	22.4	21.1	5.9	2.6	2.4	1.7	7.2	7.5	6.4	6.9
US	Estee Lauder	EL.US		72	27,797	23.4	27.5	24.4	15.8	2.1	4.9	6.3	14.9	16.0	34.8	34.9
	Avon	AVP.US		21	9,289	11.7	18.4	15.4	NA	1.6	(1.4)	1.9	8.6	9.8	32.7	33.9
	P&G	PG.US		79	217,398	15.9	19.6	18.4	7.7	0.9	1.0	2.2	18.5	19.6	18.1	18.6
France	L'Oreal	OR.FP		170	78,259	21.9	25.4	23.3	8.3	1.5	4.5	6.2	16.9	17.3	14.4	14.5
	Christian Dior	CDI.FP		192	34,893	16.8	15.7	13.3	26.2	0.6	2.5	9.8	21.1	21.7	16.0	18.4
China	L'ocitane	973.HK		3	4,037	28.6	22.0	18.1	18.2	1.1	14.1	15.4	15.2	15.8	18.4	19.1
	Shanghai Jahwa	600315.CN		8	5,304	36.2	36.1	27.4	38.2	3.5	26.7	25.6	17.3	19.2	27.3	30.7
Global avg.						21.6	24.0	20.8	18.0	2.0	6.7	7.4	13.5	14.3	18.8	19.8

Note: 1) As of Sep 23, 2) Fnguide estimates for non-coverage domestic companies, 3) Bloomberg estimates for global companies

Source: Company data, Bloomberg, Korea Investment &amp; Securities

**Table 6. Intrinsic value derived by SotP method close to TP W700,000**

(W bn, 000 shares, KRW)

	Method	Value
<b>Core operating value</b>		<b>10,497</b>
LG H&H	16.2x 2014F EBITDA (5% discount to 6 yr avg.)	7,422
TheFaceshop	13.1x 2014F EBITDA (10% discount to LG H&H EV/EBITDA)	1,683
CCB (incl. Haitai Beverage)	15.3x 2014F EPS (10% discount to global beverage sector avg.)	1,392
<b>Net debt</b>	2014F	<b>625</b>
<b>Fair value</b>		<b>9,872</b>
Number of Shares ('000)		14,660
<b>Fair value per share (FVPS)</b>		<b>673,385</b>

Source: Company data, Korea Investment &amp; Securities

## Major issue by business unit

### 1. 3Q13F preview

- **Point:** Lower earnings are already known negatives, solid earnings compared to adjusted perspective
- **Event:** 3Q13F sales of W1,167.6bn (10.8% YoY) and OP of W147.1bn (12% YoY), sales up 4.6% YoY and OP up 7.2% YoY excluding Japanese acquisitions (Ginza Stefany and Everlife)
- **Consensus:** 3Q13F earnings should be lower than our previous 3Q13F estimates (sales up 15.3% YoY, OP up 17.2% YoY) and August consensus, which was downward adjusted after 2Q13 result. Below consensus earnings are due to 1) still sluggish beverage sales on unfavorable weather condition, and 2) margin decline at the Japan business in 2H13 on stronger marketing (9.7% in 3Q13F vs. 22.1% in 1H13)
- **Conclusion:** Market has already expected earnings erosion since 2Q13 results were released assuming poor beverage profits in July-August. Weaker 3Q13 outlook compared to earlier this year was priced in during August pullback

### 2. Household goods

- **Point:** To achieve 6% growth organically despite difficult market conditions, more growth expected in 2014
- **Investors' interests:** Visibility in 2014F organic growth after acquisition effect from Japan business fades
- **3Q13F preview:** Sales 12.9% YoY and OP 9.7% YoY expected (sales 5.5% YoY and OP 4.3% YoY excluding Japan business). OP growth should lag sales due to expanded marketing activities. Management was unable to implement 2H13 ASP increase (5%), which was expected early this year, due to slow economy and more competition, but this is already known
- **2014F (long-term) outlook:** LG H&H should achieve sales CAGR of 6%, in line with management's long-term guidance (KIS estimates 7.7% YoY). LG H&H is expected to grow 5.5% organically in 2013F despite difficult market conditions, such as weak economy, reduced retail inventories and price competition
- Market condition will not deteriorate further in 2014. Moreover, given 1) expected resumption in restocking demand after several years of reduced retail inventories, 2) overwhelming market dominance of LG H&H (no.1 in six product categories and no.2. in two categories), and 3) weakening competitive power of second and third largest companies, LG H&H should continue organic growth in 2014F

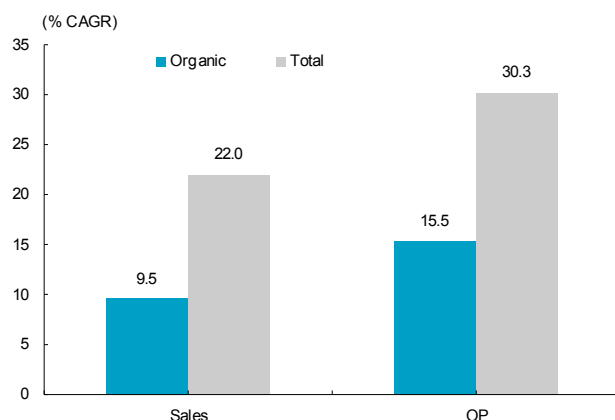
**Table 7. M/S in household goods: Few leading companies control market, LG H&H to dominate**

(%)

	Total	Personal			Home			Paper	
M/S player	ex-paper	Hair Care	Oral Care	Body Care	Laundry	Dishing washing	Fabric	Sanitary	Diaper
No.1	LG H&H (33%)	LG H&H (32%)	LG H&H (33%)	LG H&H (32%)	LG H&H (29%)	LG H&H (36%)	LG H&H (41%)	Yuhan-Kimberly (56%)	Yuhan-Kimberly (73%)
No.2	AP (16%)	AP (34%)	AP (20%)	AP (30%)	AK (27%)	AK (29%)	Pigeon (24%)	LG H&H (21%)	LG H&H (10%)
No.3	AK (8%)	P&G (14%)	AK (19%)	Unilever (8%)	CJ (18%)	CJ (19%)	RB (16%)	P&G (16%)	Daehan (8%)
Top 3. aggregate M/S	57%	80%	72%	70%	74%	83%	81%	93%	91%

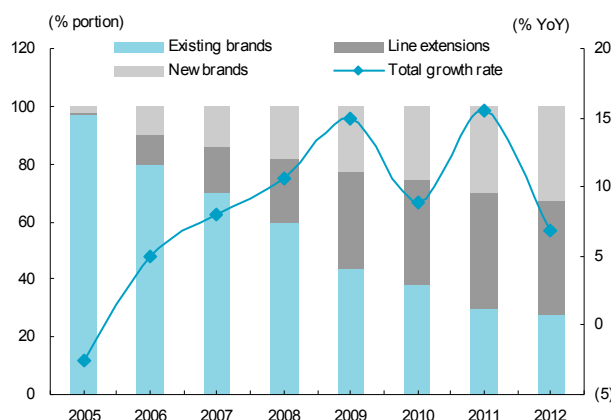
Source: Company data, Korea Investment &amp; Securities

Figure 1. 2005-12 organic sales and OP growth



Source: Company data, Korea Investment &amp; Securities

Figure 2. Steady household goods sales growth possible via new brands and line extension

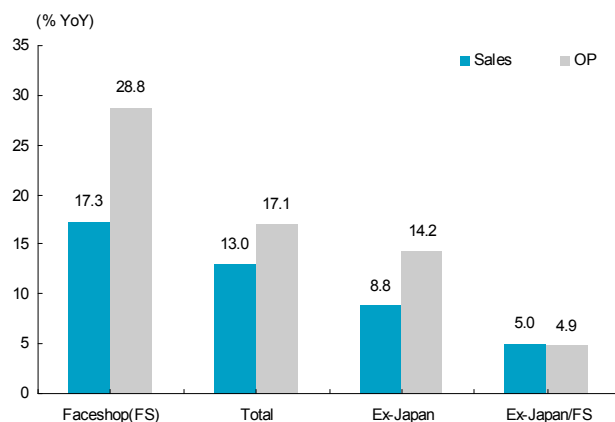


Source: Company data, Korea Investment &amp; Securities

### 3. Cosmetics

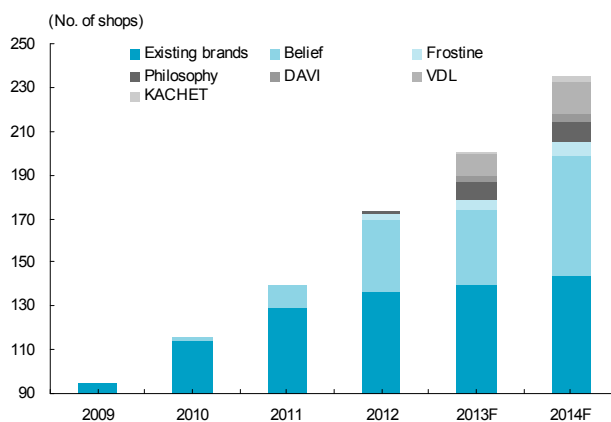
- **Point:** Solid growth based on TheFaceshop and reinforced new brands, best among three business divisions in 2013F
- **3Q13F preview:** Sales 14.1% YoY and OP 20% YoY (sales 9% YoY and OP 18.7% YoY excluding Japan business). Profitability improvement to continue on strong high-margin TheFaceshop sales and favorable department store sales
- **2013F outlook:** Organic growth of 8.8% possible given, 1) various new brands, 2) increasing market dominance of leading companies in low-end market amid weak economy, and 3) TheFaceshop's favorable domestic and overseas business (17.3% YoY)
- **Channel/Brand:** Door-to-door sales should continue shrinking, but department store sales should outperform compared to foreign brands, increasing 10% YoY for 2013. Existing department store brands, except for "Whoo (super high-end line)" will stagnate ("Sum" on high base effect, "Ohui" on brand obsolescence). New brands such as Belief, DAVI and Philosophy are gaining positive market response and should lead overall growth. However, Belief's store addition effect, which was expected in 2H13, should be achieved in 2014F as an exclusive agreement with Lotte Department Store was extended to end 2013
- **2014F outlook:** Sales 14.8% YoY, OP 16.4% YoY

Figure 3. 2013F cosmetics sales growth: Organic growth to continue



Source: Company data, Korea Investment &amp; Securities

Figure 4. No. of shops by department store brand: Ample upside based on various new brands

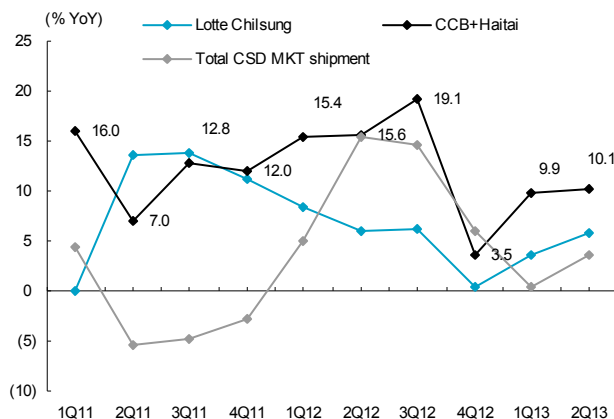


Source: Company data, Korea Investment &amp; Securities

#### 4. Beverages

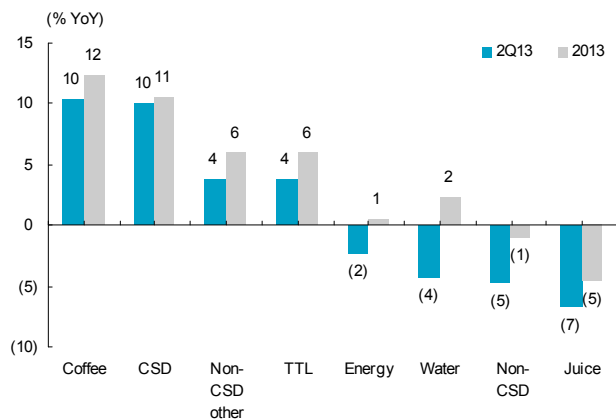
- **Point:** Sluggish 2013F earnings, but solid market dominance, to recover to 10% top-line growth in 2014F
- **Investors' interests:** Concerns over market share decline, but slow beverage business is due to weather conditions and market slowdown, and there is no decline in market share. Sales growth is slower than before, but still outstripped peers and market growth in 1H13. Lotte Chilsung 0.5% YoY in domestic beverage sales vs. Coca-Cola Beverage + Haitai Beverage 5.4% YoY in 1H13
- **Business trend:** 2013F sales should be sluggish, on: 1) higher precipitation (particularly higher in Seoul metropolitan area, which accounts for 60% of beverage sales) and 2) slowing growth momentum of major non-carbonated soft drink (CSD) hit products (e.g. Glaceau Vitaminwater - 8.1% YoY)
- Belated response to new market trends, such as energy drinks, and slow bottled water sales on intensified competition due to licensee alternation for "Samdasoo" (licensee for "Samdasoo" changed from Nongshim to Kwangdong Pharm) and Nongshim's newly launched "Baeksansoo", dragged down beverage sales. Fortunately, high margin CSD (2013F 10.6% YoY) and coffee (2013F 12.3% YoY) products should maintain solid growth
- **3Q13F preview:** Slow growth expected in 3Q13F with sales 5.1% YoY and OP 4.8% YoY. Sales recovery is less likely due to heavy rainfall in July-August, weather should turn cold earlier than usual in September. As such, we revised down our beverage sales forecast from early this year (previous: 13% YoY, revised: 6% YoY)
- **2014F outlook:** Sales to recover to over 10% growth in 2014F (KIS estimate 11.9% YoY vs. 2012-2016F long-term guidance 13% YoY), channel expansion and new brand releases to fuel growth, coupled with low comparison base.

**Figure 5. Coca-Cola Beverage (Haitai Beverage) outstrips market and peer growth**



Source: Company data, Korea Investment & Securities

**Figure 6. Sales growth by product category of CCB: CSD and coffee growing rapidly**



Note: CCB, Coca-Cola Beverage; CSD, carbonated soft drink  
Source: Company data, Korea Investment & Securities

#### 5. Overseas business

- **Point:** TheFaceshop is on the right growth track. Japan business should enter full-fledged growth phase from 2014
- **Investors' interests:** Earnings visibility concerns as newly acquired Ginza Stefany and Everlife have yet to turn profitable. However, management is confident in these operations, as the Japan business is based on several years of preparation and has ample upside with cross-selling between the two companies and the start of TV commercials (to enhance brand awareness of minor products in Everlife) in 2H13
- **Business trend:** Overseas sales of W686.8bn (54% YoY) and OP of W101.8bn (47.1% YoY, OPM 14.8%) expected in 2013F. Sales and OP contribution of overseas business increased to 15.8% and 20.2%, respectively, in two years after LG H&H launched the overseas business in mid 2011 (overseas sales and OP contribution of AmorePacific is 16.2% and 4%, respectively)
- **2014F outlook:** Ginza Stefany and Everlife to grow in earnest from 2014F (KIS estimates: sales of W286bn with 8.5% YoY and OP of W38.9bn with 13.6% YoY). Total overseas sales and OP should reach W776.7bn (13.1% YoY) and W120.2bn (18.1% YoY), respectively, in 2014F

**Table 8. Overseas sales and OP contribution of major household goods companies: LG H&H to increase weighting rapidly**

(W bn, %)

2013F	LG H&H	AP	Cosmax	Kolmar	L&L
Overseas sales	687	505	108	19	408
% to total sales	15.8%	16.2%	28.4%	4.4%	70.6%
Operating profit	102	16	12	3	79
% to total OP	20.2%	4.0%	34.3%	6.8%	85.7%
OPM(%)	14.8%	3.2%	10.7%	13.1%	19.5%

Source: Company data, Korea Investment &amp; Securities

**6. Thefaceshop (overseas)**

- **Point:** Restructuring distribution channel for next growth phase, store additions to pick up from 2014F
- **Business trend:** Growth slowdown of TheFaceshop China (W8.8bn, 20.5% YoY) and Japan (W0.8bn, -52.9% YoY) sales in 2Q13 is due to restructuring of the distribution channels rather than a fundamental issue
- Transition of distribution strategy from small-sized hypermarket counter oriented expansion to the launch of roadshops (planning to add 1-2 roadshops in 2013F) contracted Japanese sales, in addition to weak JPY
- Stores addition also slowed in China as LG H&H is preparing to shift from having two master franchise companies (Fo Shan and Heung Cheung) to establishing a JV with a local distributor. Channel expansion should normalize from 2014F. Operating efficiency, such as price controls and inventory management, should firm with integration of the Chinese distribution partner
- **2013F outlook:** KIS estimate overseas sales of W111.8bn (31.3% YoY, 21.6% to total TheFaceshop sales) and OP of W33.5bn (31.3% YoY, 33.3% to total TheFaceshop OP)

**7. M&A and others**

- **Point:** Small-size M&As to continue to reinforce global brand portfolio rather than large M&As
- **Business trend:** Fruits & Passion (Canadian body care product, has 109 shops, including 87 shops in North America), was acquired by TheFaceshop in June 2013, and should generate sales (W10bn, KIS estimates) from 2H13. Investment burden should be limited. LG H&H will provide only its own product lines to reinforce personal care (hair products, etc) lines, maintaining the existing franchise method
- **2014F (long-term) outlook:** Small-size M&As should continue to reinforce global brand portfolio rather than large M&As going forward.

**■ Company overview**

LG Household & Healthcare (LG H&H) was spun off from LG Chemical in 2001. Since CEO Cha Suk-yong took office in 2005, LG H&H grew rapidly based on M&As and business innovation and now become one of the leading companies ranking no.1 in household goods and no.2 in cosmetics and beverage market. Coca-cola Beverage and Thefaceshop are the major subsidiaries.



**Balance sheet**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Current assets	767	792	1,001	1,117	1,314
Cash & cash equivalent	92	65	152	169	267
Accounts & other receivables	348	387	477	532	588
Inventory	306	317	355	397	438
Non-current assets	1,602	1,972	2,256	2,556	2,856
Investment assets	35	40	45	50	55
Tangible assets	832	1,007	1,182	1,358	1,533
Intangible assets	664	841	935	1,044	1,153
Total assets	2,369	2,764	3,257	3,672	4,170
Current liabilities	731	940	934	1,037	1,160
Accounts & other payables	480	445	495	553	611
ST debt & bond	133	116	36	36	36
Current portion of LT debt	50	300	300	300	300
Non-current liabilities	578	553	779	762	746
Debentures	379	229	508	458	408
LT debt & financial liabilities	2	82	2	5	7
Total liabilities	1,308	1,493	1,712	1,799	1,906
Controlling interest	997	1,202	1,465	1,784	2,163
Capital stock	89	89	89	89	89
Capital surplus	97	97	97	97	97
Capital adjustments	(72)	(73)	(73)	(73)	(73)
Retained earnings	884	1,120	1,395	1,724	2,114
Minority interest	63	70	79	89	101
Shareholders' equity	1,061	1,272	1,544	1,873	2,264

**Cash flow**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
C/F from operating	289	238	441	581	680
Net profit	272	312	347	405	469
Depreciation	87	100	126	142	159
Amortization	6	8	10	12	13
Net incr. in W/C	(99)	(220)	(44)	19	37
Others	23	37	2	3	2
C/F from investing	(135)	(370)	(411)	(452)	(470)
CAPEX	(155)	(168)	(304)	(321)	(337)
Decr. in fixed assets	17	3	3	3	3
Incr. in investment	(0)	(193)	(9)	(9)	(9)
Net incr. in intangible assets	1	(5)	(105)	(120)	(122)
Others	1	(7)	4	(5)	(5)
C/F from financing	(108)	109	56	(112)	(112)
Incr. in equity	0	0	0	0	0
Incr. in debts	(62)	168	119	(48)	(48)
Dividends	(45)	(59)	(63)	(64)	(65)
Others	(1)	(1)	0	0	0
C/F from others	2	(4)	0	0	0
Increase in cash	47	(27)	86	18	98

Note: Based on K-IFRS (consolidated)

**Income statement**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Sales	3,456	3,896	4,334	4,837	5,342
COGS	1,736	1,903	2,078	2,314	2,546
Gross profit	1,720	1,993	2,256	2,522	2,796
SG&A expense	1,350	1,547	1,753	1,939	2,129
Operating profit	370	446	503	583.4	667
Financial income	2	17	9	9	11
Interest income	2	3	4	6	8
Financial expense	31	35	42	44	41
Interest expense	30	33	40	42	40
Other non-operating profit	26	(3)	(0)	(0)	(0)
Gains (Losses) in associates, subsidiaries and JV	5	5	6	6	7
Earnings before tax	372	430	476	554	643
Income taxes	101	118	128	150	174
Net profit	272	312	347	405	469
Net profit of controlling interest	265	304	338	394	457
Other comprehensive profit	(11)	(41)	(11)	(11)	(11)
Total comprehensive profit	261	271	336	394	458
Total comprehensive profit of controlling interest	254	263	328	383	446
EBITDA	463	554	639	737	839

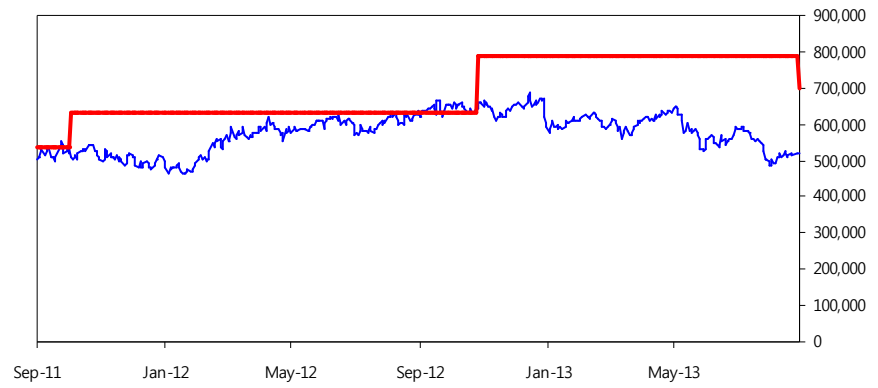
**Key financial data**

FY-ending Dec.	2011A	2012A	2013F	2014F	2015F
per share data (KRW)					
EPS	15,786	18,126	20,310	23,659	27,448
BPS	60,295	71,816	86,708	104,697	126,101
DPS	3,500	3,750	3,800	3,850	4,000
Growth (%)					
Sales growth	22.3	12.7	11.2	11.6	10.5
OP growth	13.0	20.4	13.0	15.9	14.3
NP growth	14.8	14.8	11.3	16.5	16.0
EPS growth	14.9	14.8	12.0	16.5	16.0
EBITDA growth	13.7	19.6	15.4	15.3	13.7
Profitability (%)					
OP margin	10.7	11.4	11.6	12.1	12.5
NP margin	7.7	7.8	7.8	8.1	8.6
EBITDA margin	13.4	14.2	14.8	15.2	15.7
ROA	12.6	12.2	11.5	11.7	12.0
ROE	29.7	27.6	25.4	24.3	23.2
Dividend yield	0.7	0.6	0.7	0.7	0.8
Stability					
Net debt (W bn)	470	650	691	625	479
Debt/equity ratio (%)	53.2	57.2	54.8	42.6	33.2
Valuation (X)					
PER	30.9	36.2	25.7	22.0	19.0
PBR	8.1	9.1	6.0	5.0	4.1
PSR	2.5	3.0	2.1	1.9	1.7
EV/EBITDA	18.0	20.4	14.5	12.5	10.8



**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
LG Household & Healthcare (051900)	10-28-11	BUY	W630,000
	11-20-12	BUY	W790,000
	09-25-13	BUY	W700,000



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- Hold: Expected to give a return between -15% and +15%
- Underweight: Expected to give a return of -15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

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- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

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