

Lotte Data Communication (286940 KS)

SW/SI

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Rating	BUY (M)
Target price	W55,000 (M)
Current price (Jan 3)	W36,400
Upside potential	51%

Market cap (Wbn)	560
Shares outstanding	15,396,331
Avg daily T/O (2M, Wbn)	2
Avg daily volume (2M, shrs)	54,013
52-week high (won)	44,050
52-week low (won)	33,400
Foreign ownership (%)	1.4
Major shareholders (%)	Lotte Corp & others 65.0

Stock performance

(%)	1M	3M	12M
Absolute	1.5	3.1	(9.3)
Relative	0.8	4.2	(12.8)
Abs (US\$)	0.5	2.8	(17.4)

Three new growth engines

EV charging business

Sales related to the EV charger manufacturing following the company's acquisition of JoongAng Control will likely increase by W70bn every year, based on the current market share of 20%.

The value of the EV charging market is estimated at W80bn based on 200,000 EVs (= 200,000 EVs x average annual mileage 10,000 km x W250/kWh x (average efficiency of 6.3km/1kWh)). The Ministry of Land, Infrastructure, and Transportation expects the market size to reach W450bn by 2025 based on its assumption of 1.13mn pure EVs. As such, the company will likely be able to generate around W100bn of new profit annually.

Metaverse platform business

The metaverse market will likely grow mainly in the commerce, ad, game, and entertainment segments. Lotte Group announced to utilize metaverse to expand global duty-free business and (home) shopping business, and metaverse will likely be utilized in diverse ways including model house for new apartments (Lotte E&C), metaverse cinemas (Lotte Cinema) and virtual branches (Lotte Card/Capital).

Given that the cost of producing metaverse content likely ranges from several tens of million won to several hundred million won, if Lotte Data Communication's wholly-owned subsidiary, Caliverse takes charge of the whole group's metaverse demand, sales of several billions to tens of billions of won will likely be generated from 2022.

Autonomous shuttle

The company's C-ITS (cooperative intelligent transport system) technology controls vehicles by identifying and making judgements based on real-time traffic information gathered from traffic lights and various traffic facilities, not from camera or LiDAR. We expect the technology to become the core content in the company's winning orders for smart city projects going forward.

Quarterly earnings

(Wbn)	4Q21E	% YoY	% QoQ	Consens	vs consens (%)
Sales	269	26.9	14.8	257	4.4
OP	14	41.5	0.1	14	3.2
EBT, continuing ops	14	72.3	-2.9	13	3.5
Net profit, CI	11	50.8	-0.9	11	-2.4
OPM (%)	5.3	+0.6 %pt	-0.8 %pt	5.3	0
NPM (%)	3.9	+0.6 %pt	-0.6 %pt	4.2	-0.3 %pt

Note: CI = controlling interest

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2019A	2020A	2021F	2022F
Sales		846	850	958	1,126
OP		41	39	52	66
Net profit, CI		55	30	43	51
P/E (x)		11.8	18.1	12.6	11.1
P/B (x)		1.7	1.3	1.2	1.2
EV/EBITDA		5.5	6.4	4.9	3.8
ROE (%)		14.8	7.4	10.0	11.0

Source: Yuanta Securities

Lotte Data Communication (286940 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Sales	846	850	958	1,126	1,293
Cost of sales	771	781	870	1,021	1,171
Gross profit	75	69	88	105	122
SG&A	34	30	36	39	43
Operating profit	41	39	52	66	78
EBITDA	79	76	93	115	129
Non-op profit/loss	5	-1	5	1	0
Forex gain/loss	0	0	0	0	0
Net interest inc	2	1	0	0	0
Equity-meth gain/loss	0	0	0	0	0
Other	2	-2	5	1	0
Net prof before income tax	46	38	56	67	78
Income tax	-7	8	14	16	19
Net profit from cont op	53	30	43	51	60
Net profit from discont op	0	0	0	0	0
Net profit	53	30	43	51	60
NP for controlling int	55	30	43	51	60
Total comprehensive inc	46	34	35	43	52
TCI for controlling int	47	34	35	43	52

Statement of financial position

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Current assets	382	283	266	359	450
Cash & cash equiv	150	38	110	178	244
Accts rec & other	119	103	131	153	176
Inventory	7	13	10	11	13
Non-current assets	315	366	398	410	421
Tangible assets	228	290	303	321	337
Investment in affiliate	0	0	0	0	0
Other non-current	11	10	15	15	15
Total assets	697	650	664	769	870
Current liabilities	293	227	170	205	227
Accts payable & other	261	138	148	183	205
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	0	0	0	0	0
Non-current liabilities	14	9	56	86	116
LT financial liabilities	0	0	30	60	90
Debentures	0	0	0	0	0
Total liabilities	306	236	226	290	343
Equity, controlling int	390	413	438	478	527
Paid-in capital	77	77	77	77	77
Capital surplus	312	312	312	312	312
Retained earnings	68	91	118	158	207
Equity, non-control int	0	0	0	0	0
Total equity	390	413	438	478	527
Net debt	-214	-54	-83	-121	-158
Total debt	3	2	34	64	94

Cash flow statement

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Operating cash flow	117	-14	83	104	102
Net profit	53	30	43	51	60
Depreciation & amort	30	30	34	43	46
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc(dec) net working cap	27	-106	-5	2	-10
Other	7	32	11	8	6
Investing cash flow	-44	-23	-144	-142	-142
Investment	-2	-1	-3	0	0
Inc in tangible assets	-27	-65	-62	-62	-62
Dec in tangible assets	0	0	0	0	0
Other	-15	43	-79	-80	-80
Financing cash flow	-88	-15	17	17	17
Inc(dec) in ST fin liab	-58	0	0	0	0
Inc(dec) in LT fin liab	0	0	30	30	30
Inc(dec) in equity	0	0	0	0	0
Cash dividend	-9	-11	-11	-11	-11
Other	-20	-4	-3	-3	-3
Other cash flow	0	-60	116	89	89
Inc (dec) in cash & eq	-14	-112	72	68	66
Beginning cash & equiv	163	150	38	110	178
Ending cash & equiv	150	38	110	178	244
NOPLAT	48	39	52	66	78
FCF	91	-80	21	42	40

Valuation

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
EPS (won)	3,679	1,940	2,779	3,288	3,866
BPS (won)	25,805	27,321	28,966	31,613	34,847
EBITDA/shr (won)	5,299	4,962	6,061	7,493	8,410
SPS (won)	56,986	55,178	62,226	73,104	83,987
DPS (won)	700	700	700	700	700
P/E (x)	11.8	18.1	12.6	11.1	9.4
P/B (x)	1.7	1.3	1.2	1.2	1.0
EV/EBITDA (x)	5.5	6.4	4.9	3.8	3.1
PSR (x)	0.8	0.6	0.6	0.5	0.4

Key financial data

FY ends Dec (Wbn)	2019	2020	2021E	2022E	2023E
Sales (% y-y)	4.2	0.5	12.8	17.5	14.9
Operating profit (% y-y)	5.5	-5.7	33.0	27.8	19.2
NP, CI (% y-y)	107.4	-45.3	43.2	18.3	17.6
Gross margin (%)	8.8	8.1	9.2	9.3	9.4
Operating margin (%)	4.9	4.6	5.4	5.9	6.1
NP, CI margin (%)	6.5	3.5	4.5	4.5	4.6
EBITDA margin (%)	9.3	9.0	9.7	10.2	10.0
ROIC (%)	36.1	15.7	12.9	15.4	17.9
ROA (%)	7.8	4.4	6.5	7.1	7.3
ROE (%)	14.8	7.4	10.0	11.0	11.8
Debt-to-equity (%)	78.4	57.1	51.5	60.7	65.1
Net debt-to-equity (%)	-54.9	-13.2	-19.0	-25.4	-29.9
OP/financing cost (x)	27.7	188.9	136.7	92.7	75.1

Note: CI = controlling interest

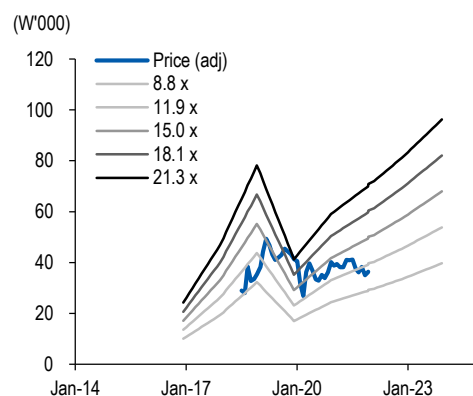
Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

EPS, BPS, P/E and P/B are based on controlling interest

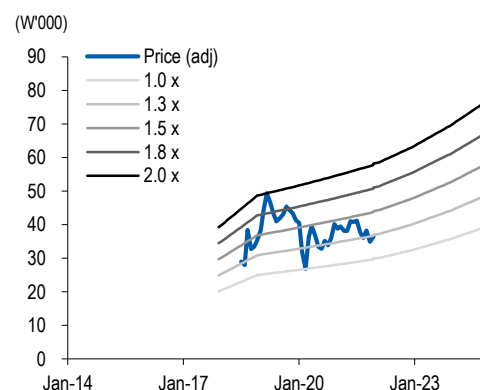
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

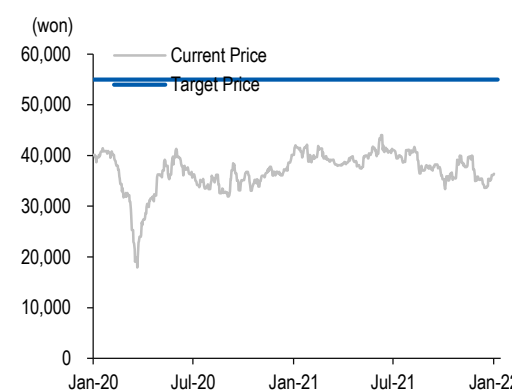
P/E band chart



P/B band chart



Lotte Data Communication (286940 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2022/01/04	BUY	55,000	1 yr		
2020/02/19	After 1yr		1 yr	-33.13	-19.91
2019/02/19	BUY	55,000	1 yr	-28.82	-6.73

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Rating	Share (%)
STRONG BUY	0.0
BUY	93.3
HOLD	6.7
SELL	0.0
Total	100.0

Note: As of Jan 02, 2022

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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