

Amore Pacific Corp

Beyond the peninsula: Asian Beauty Creator

Rating

BUY

Target Price	₩ 2,807,000
Price, 17 Oct 2014	₩ 2,277,000
Upside Potential	% 23.30
Ticker	090430 [KS]

Market Data

Market Cap	₩ 13,311 B
Shares Outstanding	5,845,849
Main Shareholders	
- Amore Pacific Group	32.18%
- KYUNGBAE SUH	9.08%
- National Pension Service	7.07%

52w price range	₩ 0.87M - ₩ 2.52 M
Avg. Daily Volume	KRW 22,416M
Beta (1Y)	0.56

P/E Ratio (15E)	30.91x
P/B Ratio (15E)	4.21x
EV/EBITDA (15E)	17.39x

Earnings per Share (15E)	₩ 91,138
Dividend Yield (15E)	0.37%

Share Price Movement



We issue a BUY recommendation on Amore Pacific (AP) with one-year target price of KRW 2,807,000, offering 23.3% upside potential from its closing price on October 17, 2014. Amore Pacific is the largest cosmetic care company in Korea with 39% market share. Overwhelming domestic market status and overseas sales growth are the key factors that enable AP to make a leap forward to be a leading company in Asian cosmetics market.

Solid market status and broad brands portfolio

Amore Pacific has remained its overwhelming market position with the approximately 39% share in the domestic market. Its business mainly consists of cosmetic products (87%) and mass beauty care products (13%), including 11 cosmetic brands and 6 mass products brands.

Three key drivers: Domestic, Overseas, New items

Amore Pacific has presented consecutive growth with their sales volume, while its margin rate suffered serious decline in the past three years, until the first quarter of 2014 when the margin rate turned around to perform sudden restoration. Now Amore Pacific started its growth by 3 key factors; 1) Growth of domestic market in both quantity and quality, 2) Success in Chinese market based on 3 strategies 3) New sales driver, cushion items and foreign duty free shops.

Future of Amore Pacific as Asian beauty creator

Amore Pacific has not been one of those famous multi-national brands in the global cosmetic market for the past few years. However, now Amore Pacific is infiltrating the appetite of Chinese women, establishing its position as Asian beauty Creator. The number of tourists from China is constantly renewing its past records along with the increasing demands on Korean cosmetic products, resulting in AP's sales volume acceleration both in domestic market and abroad market.

Main risk issues Amore Pacific is exposed to

Amore Pacific is exposed to various types of risks; (1) Operational Risks – cannibalization effect among subsidiary brands and unsuccessful launch of following new products, (2) Market Risk – excessive competition in domestic cosmetics market, (3) Financial Risk – fluctuations of foreign exchange rates and (4) Regulatory Risk – prudent regulations of Chinese government.

Valuation: target price of KRW 2,807,000 with 23.3% upside potential

Peer method is used to calculate AP's Target price, resulting in the target price of KRW 2,807,000 and target P/E ratio of 30.91.

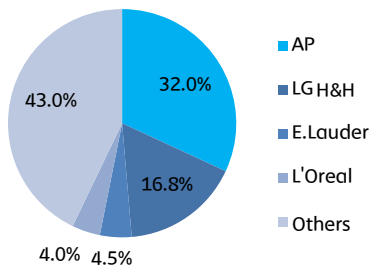
Key Financial Factors & Forecast Summary

Key Ratio	2011	2012	2013	2014F	2015F	2016F
Sales (₩ Million)	2,554,723	2,849,462	3,100,413	3,894,808	4,385,835	4,856,338
YoY	12.4%	11.5%	8.8%	25.6%	12.7%	10.9%
EBITDA (₩ Million)	475,224	457,799	466,005	713,337	847,851	978,967
Net Income (₩ Million)	327,269	269,258	267,359	432,056	529,783	614,840
OPM	14.6%	12.8%	11.9%	14.5%	16.0%	16.8%
ROE	16.4%	12.0%	10.9%	15.7%	16.6%	16.6%
EPS	55,983	46,059	45,734	73,908	90,625	105,175

Source: Company data, Team estimates

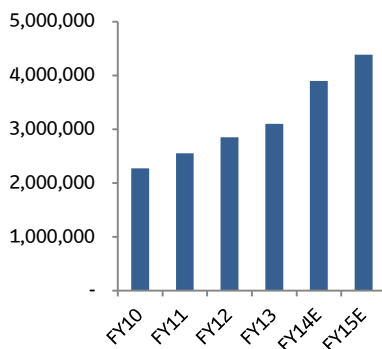
Business Description

[Figure 1] Domestic Market Share



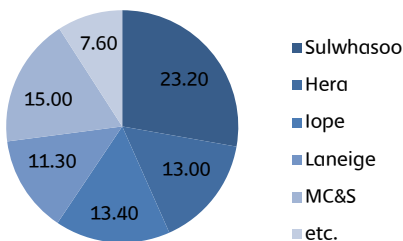
Source : company data

[Figure 2] Historical Sales Revenue (KRW Million)



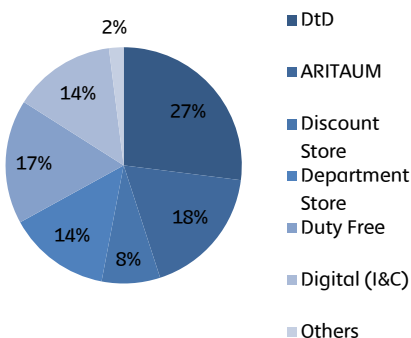
Source : company data

[Figure 3] Sales Breakdown : Products (%)



Source : company data

[Figure 4] Sales Breakdown : Channels (%)



Source : company data

*This figure is about only domestic market

Established in 1945, Amore Pacific Corporation (AP) is the largest cosmetic care company in South Korea. By 2013, AP accounts for approximately 39% of Korean domestic cosmetics market with sales volume of KRW 3 billion and its market status has remained stable. As a representative product line, there are Sulwhasoo, Hera, Mamonde and Innisfree.

Broad brand portfolio of Amore Pacific

Luxury product line, the high-end cosmetics products consist of Sulwhasoo, and Hera while Premium product lines include Laneige, Mamonde, Innisfree, and IOPE. Luxury products are usually found in Duty free shop and department store channels, while Premium products, which are relatively low-end products compared to Luxury product line, are sold in one brand shops and digital sales.

Revenue breakdown of Amore Pacific

Most of AP's revenue is generated in the luxury cosmetics market, especially domestic market. In the first half of 2014, 87.6% of AP's revenue was generated from the sales of cosmetic care products. In this period, AP shows growth rate of 18.4% compared to the first half of 2013. Product line Sulwhasoo has become popular both in South Korea and China to contribute this high growth of AP. The Korean wave is creating rapid increase of Chinese tourists visiting Korea. It is estimated that Chinese tourists visiting South Korea in the year 2014 are over 5 million, and this trend supports future growth of AP.

Various distribution channels including door-to-door channel

AP has several business models to sell their products e.g. door-to-door, department store, duty free shops and digital shops. In the early stage of AP's history, they relied on door-to-door business. Door-to-door business helped the company to be the giant in Korean cosmetics market as it is now, but the DTD business is getting behind the time now.

DTD Channel as the primary distribution channel of Amore Pacific

DTD as a method of sales, indicates 35,000 DTD sales managers (AKA, Beauty Planners) visiting customers' homes and providing make-up care services as examples, selling cosmetic products in the process. The DTD managers receive products to sell by purchasing directly from AP, the rest is up to their own.

Continuing channel shift derived from run-down DTD sales

Most of customers in cosmetics DTD market reside in provinces out of cities like Seoul and are elderly. To stay at the lead of cosmetics market, AP's DTD proportion was decreased to 27% in 2014 from 38% in 2010. Through this, AP's total operation margin decreased from 17.8% in 2011 to 10.9% in 2013

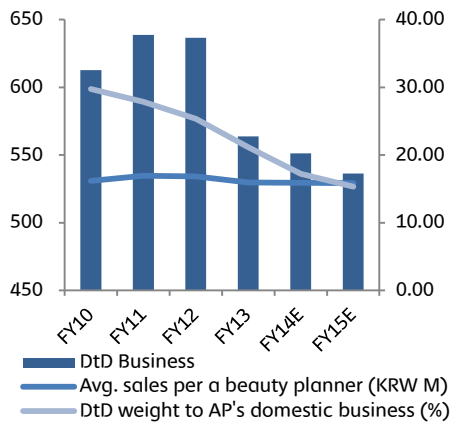
LG H&H, the biggest competitor in domestic market

Meanwhile, LG H&H, the biggest competitor of AP focused on enhancing door-to-door sales channel. Unable to resist the attempt from high margin rate DTD shows. In the long run, however, LG H&H's DTD sales will be out of business, demanding painful reformation from LG H&H.

Escalating foreign sales recording KRW 383 billion in 2014 1H

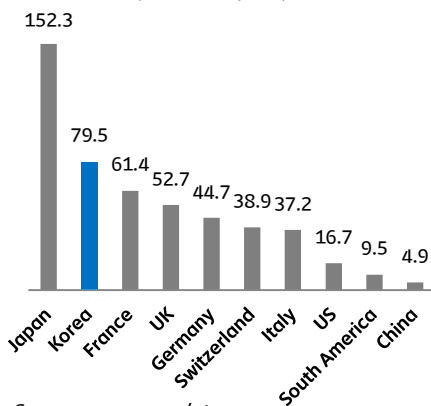
AP's abroad sales in the first half of 2014 should be noted. AP's foreign sales recorded KRW 383 Billion, which is 38% higher than the same period last year. As a result of this dramatic growth, abroad portion on total revenue has escalated from 17% to 20.2%. Unlike saturated Korean market, Chinese cosmetics market still in progress of development provides prosperity to AP.

[Figure 5] Forecast: DtD business (KRW M)



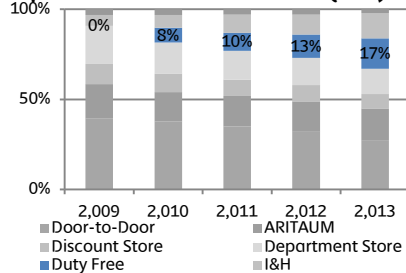
Source : company data

[Figure 6] Per capita amount consumed for skincare products (USD)



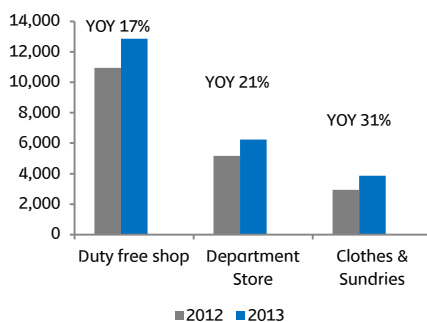
Source : company data

[Figure 7] Average per capita expenditure of Chinese tourists (USD)



Source: Korea Ministry of Culture, Sports and Tourism

[Figure 8] Average per capita expenditure of Chinese tourists (USD)



Source: Korea Tourism Organization

Industry Overview & Competitive Positioning

Korean cosmetics & beauty market in general

Clear Division of Major league and Minor League

Korean cosmetics & Beauty market show clear division between high-end lines and low-end lines. While both lines contribute sales volume, high gravity in low-end line products damages profit rate. AP was caught in this trap when domestic customers moved to low-end channels such as Innisfree from high-end channels, showing low rate of return in the past few years. This phenomenon basis on production cost which does not show much difference between high-end products and low-end products. As consequence, companies in the field of cosmetic market seek high-end product lines rather than low-end lines.

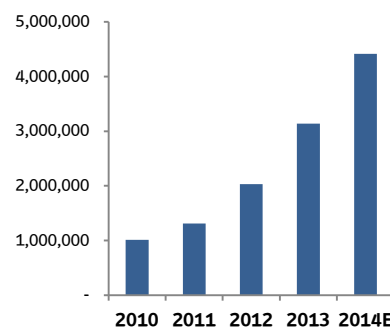
Decline of D2D channel

DTD sales channel, a sales Channel referring to beauty planners personally visiting customers' homes and selling products, marked a positive growth for 2 consecutive years since 2010 when its sales marked KRW 84.1 billion. However in 2013, it showed -8% de-growth and recorded sales of KRW 83.7billion. D2D channel started in 1964, when AP was in its starting level. However, as diverse channels were developed and privacy became important for consumers, D2D channel started to take process of declination.

Rising of the You-ke, Chinese tourist

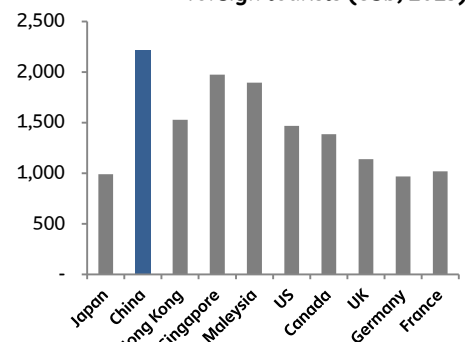
From 2009, fast growing (3Y CAGR 46%) Chinese tourism, so- called You-ke, opened a new prospect in Korean cosmetics & beauty market both in size and structure. As the total amount of time and money Chinese tourists spent in shopping increased by (3Y CAGR) 11.5% every year, Korean cosmetic market took the most portions out of it.

[Figure 9] Historical Chinese entrants



Source: Korea Ministry of Culture, Sports and Tourism, YONSEI University Student Research Team

[Figure 10] Average per capita expenditure of foreign tourists (USD, 2013)



New Frontier, cosmetics & beauty market in the main land of China

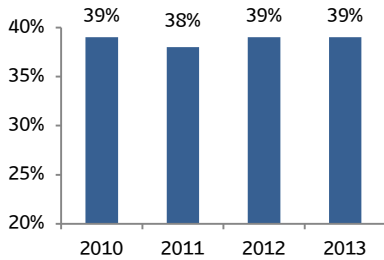
Chinese cosmetics & Beauty market

Going beyond You-ke, AP's new engine of growth is the main Chinese market. As China has biggest domestic demand in Asia, many global cosmetic brands are competing to get the upper hand in Chinese market. Chinese tourists' positive response to AP's brand in Korea and enthusiasm for Korean culture, especially in Korean soap opera, shows potential for AP's further success in Chinese mainland.

Chinese cosmetics market as a battlefield of international companies

Chinese cosmetics market is nowhere near maturity. Instead of domestic Chinese cosmetics brand, few huge international cosmetics makers keep oligopoly positions in the market. Even though AP's market share is below 5%, with its rapid sales growth, AP will be able to enter the top five in Chinese cosmetics market. To actualize this prediction, AP is building a new factory in Shang-Hai along with diverse brand shops such as Laneige and Innisfree

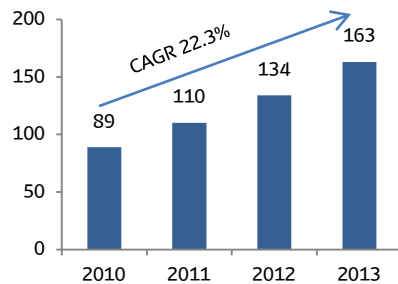
[Figure 11] AP's domestic market share



Source: Company data

*This figure includes Etude House and Innisfree

[Figure 12] Historical scale of Chinese cosmetics market (CNY Billion)



Source: National Statistics Bureau of China

[Table 1] Top 5 cushion items and related companies in Korean market

	Name of item	Company
1	Hera UV Mist Cushion	Amore Pacific
2	Sulhwassu Perfecting Cushion	Amore Pacific
3	Amore Pacific Treatment Color Perfecting Cushion	Amore Pacific
4	Primera Watery CC Cushion	Amore Pacific
5	VDL Beauty Metal Cushion Foundation	LG H&H

Source: Company data, YONSEI University Student Research

AP's strength point compared with other competitors

Cosmetics do not show meaningful differences in its product quality. The key factor making one brand favorable than its competitors is the image produced by marketing and individual experiences. The differences between high-end products against low-end products are also based on image, not on the actual effect of a particular cosmetic. In domestic market, AP established its brand power and sales network through accumulated time in business. AP's numerous hit-brands, independently definite, constructed AP's competitiveness as a cosmetics brand company

Recently, AP is competing against oligopoly of global cosmetics makers in China, such as L'oreal, P&G and Shiseido. AP's brand power compared to the mega-corporations above cannot be considered as strong. However, some of its brands, Sulhwassu for instance, is taking sufficient competitive edge with brand image based on Korean Wave or the beautiful scenery of Jeju island(the place visited by most Chinese tourists in Korea other than Seoul). The retailers in China demand AP's products to be in Hangul rather than Chinese letters due to the effect of this brand image, thus Chinese perception in Korean brand in cosmetics market is highly positive.

Also AP introduces its own image as Asian Beauty Creator. Unlike most global cosmetics makers, AP does not follow western standard of beauty. Instead, they pursue beauty standard of Asia, using Oriental materials for their product. This segmentation strategy in market makes AP distinctive from their competitors.

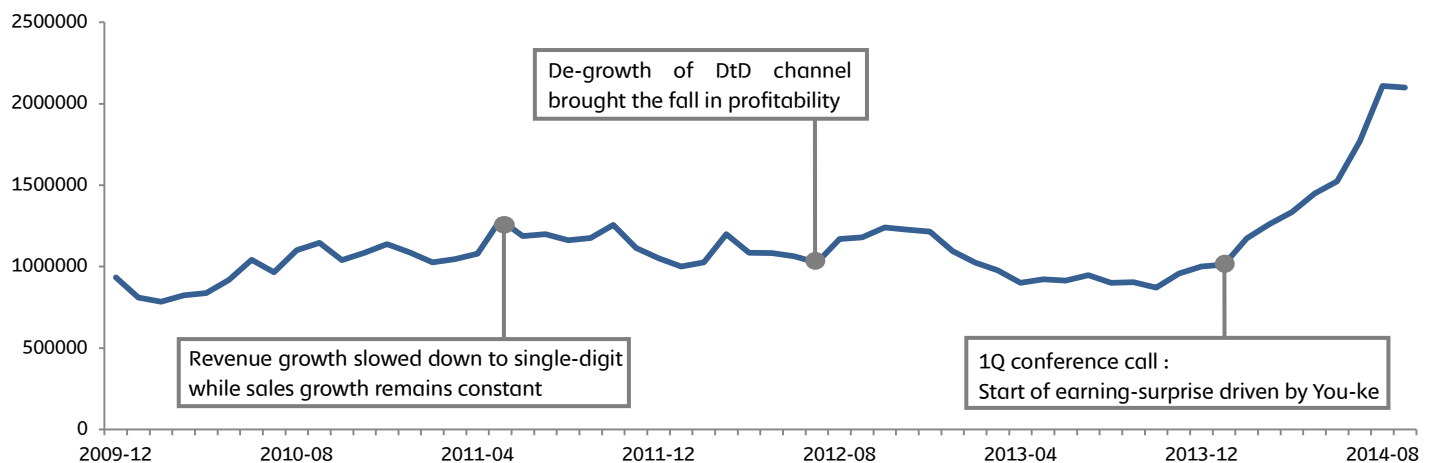
Extension of duty free shop market

No longer than two years ago, duty free shop sales channel did not have enough portion in AP's sales to be mentioned in business report. The increase in Chinese tourists changed this situation. Korean duty free shop now leads the world occupying 11% of market share in the whole world and 30% in Asia. AP is one of the companies taking benefit from this emerging sales channel, selling high-end products that might be considered as expensive within taxes. More than 80% of sales in duty free shop consist of high-end products.

Air cushion, the new horizon

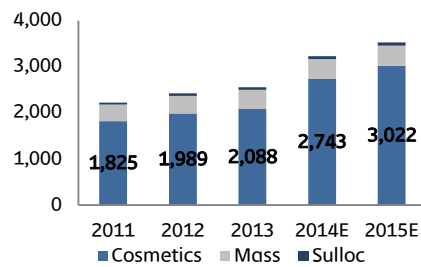
AP launched its new product "Air Cushion" in 2008. Air Cushion is a cosmetic product with special sponge that enables cream, foundation, and sun cream, to be applied at once. It was an innovative item because unlike other various cosmetics products, it takes modern people's busy life into consideration saving tremendous amount of time taken in make-up process. AP's air cushion, highly acclaimed globally, recorded sales of 12.6 million products in 2013, and already 75% of last year's total sales of cushion has been sold over 5 months of this year. This new invention is contributing to AP's bright future.

[Figure 13] Forecast : breakdown of domestic and foreign business (KRW B)



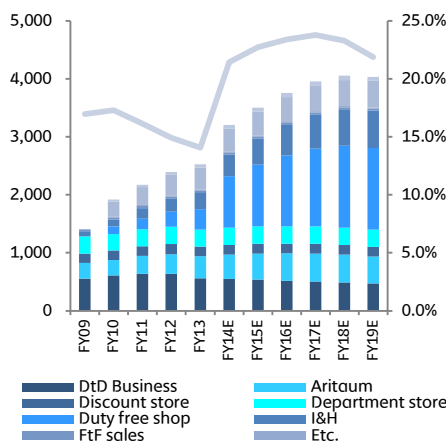
Source: Company data, YONSEI University Student Research

[Figure 14] Forecasting: domestic sales revenue (KRW Billion)



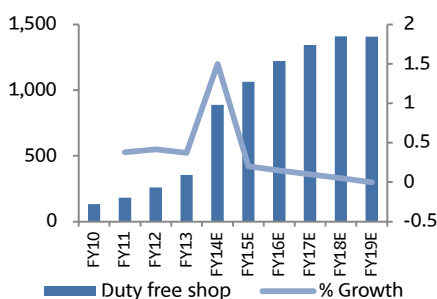
Source: Company Data

[Figure 15] Forecast: Domestic business breakdown & OPM ratio (KRW Billion)



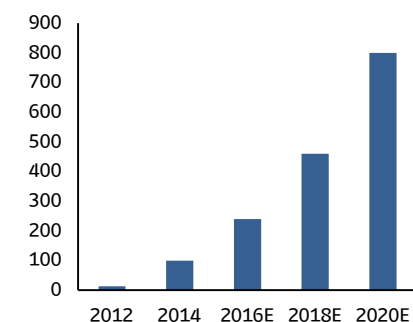
Source: Company Data, YONSEI University student research team

[Figure 16] Forecasting: sales from Duty Free (KRW Billion)



Source: Company Data, YONSEI University student research team

[Figure 17] Forecast: Number of Innisfree stores in China



Source: Company Data, YONSEI University student research team

Investment Summary

Amore Pacific (AP hereafter) which has presented consecutive success since 2010 is expected to move on to the next great step of its history. Below are investment highlights supporting company's future progress both in quantity and quality, likewise both in domestic and abroad markets; 1) Growth of domestic market in both quality and quantity, 2) Success in Chinese market based on 3 strategies, 3) New sales drivers such as cushion items and foreign Duty-Free shops.

Growth of domestic market in both quality and quantity

Domestic sales of AP performed high growth rate for 4 years with CAGR 10% from 2010. It was derived from the dramatic increase of YOU-KE, referring to Chinese tourists who visit Korea on sightseeing. Thanks to the increase of YOU-KE during Chinese Mid-Autumn Festival, Incheon Asian Game and National Day of China, AP's sales (Duty-free, Department store and ARITAUM) in 2014 are forecasted to grow on average of YOY 42%. Since these 3 distribution departments accounted for 49% of domestic sales in 2013, growth of these departments would affect overall growth of AP Corp. Sales growth by YOU-KE improves the brand images of AP's flagship brands such as Sulwhasoo, Laneige, Iope and Hera. This would bring positive effects not only to sales growth by increased tourist, but also to future growth in Chinese mainland.

AP's OP margin rate, declined on account of structure change in domestic cosmetics market, is expected to be restored to 14.6% in FY2014 and 16.1% in FY2015. It steadily declined due to weight reduction of DtD channel whose OPM was the highest. However, it would be restored by extension of Duty-Free channel and Internet & Homeshopping (I&H) channel. OP margin of these 2 channels are on similar level of that of DtD channel; about 25%. Duty-Free channel assists AP's OPM growth despite the high commission, since the weight of luxury and high margin brand, Sulwhasoo, is overwhelming the weight of other relatively low-end products. In addition, I & H channel with the lowest cost is performing dramatic growth through integrated mileage system among AP's brands and innovative new products such as cushion items.

Average OPM of 2014 1Q and 2Q was recorded at 17% level already. The weight of Duty-free channel to total sales is expected to increase more in 2014 3Q and 4Q despite the off-season, thanks to the increased demands from Chinese tourist during Chinese Mid-Autumn Festival, Incheon Asian Game and National Day of China. Considering these factors, domestic market is expected to grow in both quantity and quality.

Success in Chinese market based on 3 strategies

Improved brand image of AP has positive effects on foreign sales growth. AP's abroad sales growth rate performed CARG 28% for the past 3 years with Chinese market accounting for approximately 62% of total abroad sales, leading the trend. AP's brand value in Chinese market has ranked 11th with the insignificant market share of 1.2%. Although it is lagging compared to P&G (25.8%), L'Oreal (11.0%) or SHISEIDO (5.4%), it also means some room for improvements.

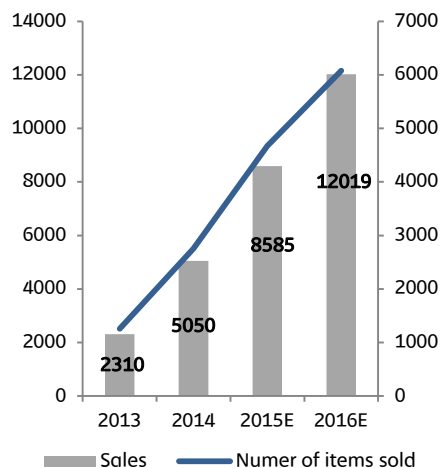
AP is anticipating success in the Chinese market with the next three strategies.

First: Gentrification strategy through Laneige. AP started to make an effort to build up Laneige as the primary beauty brand of Asia from 2002. Nevertheless it went through depression at an early stage of its advance to China. AP's gentrification strategy came in to visibility after some market investigation over the years and acquisition of distribution channels. Laneige existed in about 100 cities and 290 department stores in 2013 1H, then it expanded to 120 cities and 329 department stores within just a year. Considering that Laneige's competitors deliver sales from more than 500 department stores in average, its growth in quantity is expected to continue for a while.

Second: Innisfree, the road-shop brand aiming the low-end market. Innisfree advanced to China in 2012, with less than 100 stores currently operating in China. AP judged that Innisfree has some potential in Chinese market, which is growing and whose customer group is expanding. In this perspective, AP declared expansion of Innisfree stores to 800 by 2020. There is good precedent of another Korean road-shop brand, MISSHA. MISSHA advanced to China in 2006 and expanded to 600 stores in 5 years, with the CAGR 50%. Considering this precedent, it is clear that aggressive expansion of Innisfree would affect positively to AP's sales from Chinese market.

Last: Development in quality by restructuring of Mamonde. Mamonde was once popular with about 900 department stores and 2,500 specialty stores in Chinese operation. However, its profitability has decreased due to vague brand positioning. The excessive expansion of specialty stores was the problem for AP especially when sales of Mamonde stopped to grow. In order to solve the problem, AP decided to reform Mamonde withdrawing 100 department stores from the beginning of 2014. Mamonde is expected to turn into profit, by developing new distribution channels such as drugstores or I & H sales.

[Figure 18] Forecasting sales of AP's cushion items (10,000 items, KRW M)



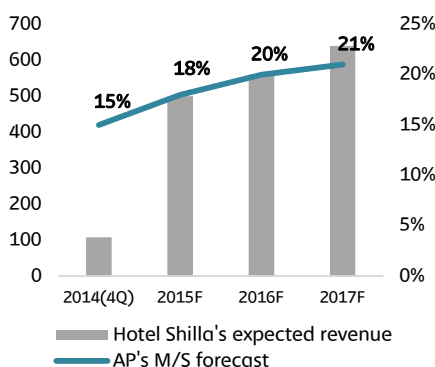
Source: Company data, YONSEI University Student Research

New sales driver: Cushion items and foreign Duty-Free shops

Cushion items were first developed in 2008 by AP and expected to perform dramatic growth building new market, both in domestic and foreign market. AP sold about 12.6 million cushion items in 2013 and in May 2014 cushion items already recorded 75% of total sales of 2013. In 2014, AP is expected to sell about 27 million cushion items and its sales is expected to be KRW 505 billion with the growth rate of 70%. Cushion market is growing market with great potential, and the scale of foreign cushion market doubled last year. Since AP has overwhelming power as the leader in cushion market, AP is expected to benefit from the growth of cushion market.

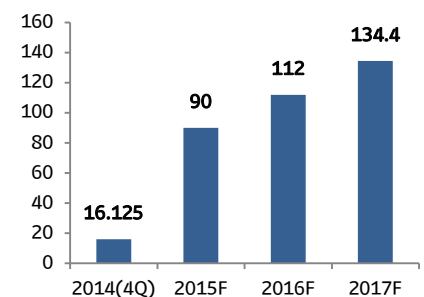
Moreover, another factor to benefit AP can be found in Duty-Free business of Hotel Shilla at Changi airport, Singapore. Opening in October 2014, Hotel Shilla, the flagship hotel brand of Korea, attained management authority of fragrance and cosmetics stores located in terminal 1~3 (6,600m²) and terminal 4 (to be completed in 2017). As sales volume of Duty-Free shop is generally proportional to area of the store, sales volume of Shilla duty free shop in Changi airport is analyzed to reach KRW 90B in 2014, hitting KRW 600B to KRW 700B in 2015. Considering AP's 20% portion in domestic Shilla Duty-Free, M/S of AP in Changi airport is expected to be around 15%, adding approximately KRW 100B to AP's sales. Ranked to have the 4th largest duty-free stores in the world after Incheon, Dubai and London, Changi airport is the herb airport of Southeast Asia used by 1.3 times more people using Incheon airport. Growth in Changi airport would serve as a bridgehead to expansion in Southeast Asian market for AP, where the company is considering as post-Chinese growth driver. In addition, expansion of domestic duty-free corporations to abroad market such as Hotel Shilla's contract with Macao duty-free stores announced on 14th of October, 2014, brightens the future of AP in abroad duty free business.

[Figure 19] Hotel Shilla's expected revenue from Changi airport and AP's M/S (KRW B)



Source : Company Data, YONSEI University student research team

[Figure 20] AP's expected sales from Changi airport (KRW 100 M)



[Table 2] Compensation of the board members in 2013 (KRW million)

Registered director	
Headcount	4
Compensation	3,828
Unregistered director	
Headcount	5
Compensation	306
Audit committee	
Headcount	3
Compensation	-
Total	
Headcount	9
Compensation	4,134

Source : Company Data

Corporate Governance & Social Responsibility

Corporate Governance

Asian Beauty Creator

AP pursuit beauty and health in the level of entire humanity, placing healthy co-existence of mankind and environment as the core value of enterprise. In 1993, AP declared 'Unlimited responsibility-ism on environment, practicing Amore Pacific's 'green act' to bring the concept out.

Social Responsibility

Green-house gas reduction

To reduce green-house gas exhaustion in AP's business, AP constructed gas exhaustion inventory, putting much effort in cutting down green-house gas exhaustion. Thanks to the SCM green-house gas reduction plan, established in 2011, AP is on the successful process of cutting down green-house gas exhaustion compared to 2010 till 2020.

Corporate philanthropic activities in China

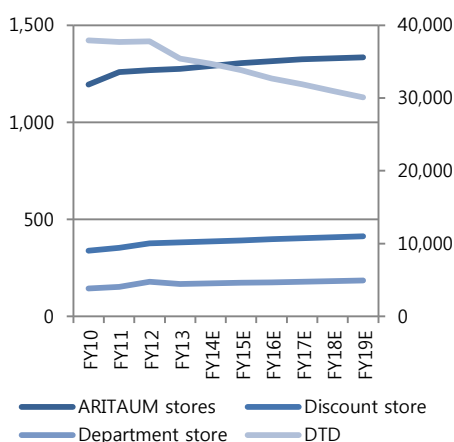
AP is running a campaign called 'AMORE PACIFIC Makeup your life' since 2011 in China. It helps women suffering sudden skin troubles and depilation from anti-cancer procedure and helps those women to overcome mental challenge by providing them make-up and skincare service. It started in Fu-Dan University in Shanghai at the beginning, expanding through the country by collaboration of many cancel hospitals. In 2013, 460 patients participated in the campaign to restore their beauty.

[Table 3] Target Price Breakdown

Value of common stocks	
Closing price (10. 17, KRW)	2,277,000
Market Cap. (KRW Million)	13,310,998
Shares outstanding	5,845,849
Value of preferred stock	
Closing price (10, 17, KRW)	1,063,000
Market Cap. (KRW Million)	1,122,297
Shares outstanding	1,055,783
Target price & Upside potential	
Calculated Target Price (KRW)	2,807,077
Tick adjustment (KRW)	2,807,000
Closing price (10. 17 KRW)	2,277,000
Upside Potential (%)	23.3%

Source: Company Data, YONSEI University student research team

[Figure 21] Forecasting the number of distribution channels in South Korea



Source: Company Data, YONSEI University student research team

[Table 4] Local entities' sales forecast (KRW Billion, 2014E)

China	
Sales Revenue	476
OP Margin (%)	7.0%
% Sales Growth	40%
France	
Sales Revenue	92
OP Margin (%)	-4.7%
% Sales Growth	1.8%
USA	
Sales Revenue	25
OP Margin (%)	-8.3%
% Sales Growth	5.0%
JAPAN	
Sales Revenue	47
OP Margin (%)	-3.8%
% Sales Growth	-1%
Others	
Sales Revenue	100
OP Margin (%)	-2%
% Sales Growth	27.1%

Source: Company Data, YONSEI University student research team

Valuation

Relative valuation was used in this research with comparable group multiples. LG H&H, L'Oreal and Shanghai Jahwa were considered as comparable group. Average 12M Forward P/E, EV/EBITDA, EV/CFO in 5 financial years of the comparable group are the target multiples. 30.91 P/E, 20.96 EV/EBITDA and 24.52 EV/CFO were our calculation to bring KRW 2,807,000 as the target price. The investment recommendation is 'BUY' following this valuation.

Domestic Skincare Sales: Monopolistic purchasing power of inbound Chinese

DtD : De-growth of DtD sales and beauty planners

Our forecasted DTD sales in 2015 is KRW 536B, with around 3% de-growth rate annually. The DTD business started to enter the declination part of its life cycle in the past 3 years, starting to show de-growth pattern by 3Y CAGR -2.5%. In the same period number of the Beauty Planners hired by AP showed similar de-growth by 3Y CAGR -2.5. DtD business will certainly be depressed in the future mainly by the channel preference shift of customers. 3Y CAGR de-growth rate of Beauty planners is forecasted by AP, enabling the forecast of DtD sales volume to de-escalate around 3% annually.

Duty free shop : Strong performance with double-digit growth, driven by 'You-Ke'

Forecasted sales generated from duty free shops in 2015 is KRW 1,064B. The duty free shop business is driven by 'You-Ke' showing 3Y CAGR 46% until 2013. At the same time consumption per Chinese tourist recorded double digit growth rate annually along with actual amount of Chinese tourists visiting South Korea. Moreover in the first quarter of 2014, AP's duty free shop sales showed 200% growth over same period last year. Our forecasted duty free shop channel sales growth in FY14 is 150%. This Growth rate starts the declination back to 20% of mean level with -5% annually from FY15.

ARITAUM, wholesales, department store : Upside from Chinese inbound while domestic business reach the limit

For the past 3 years, sales volume of wholesales have met certain level, KRW 170B. AP's sales volume of wholesales depends on only Domestic consumers, so we forecasted it will maintain current level. Meanwhile, ARITAUM (road shop franchise) growth rate keeps CAGR 15%. It was also driven by 'You-Ke', ratio around 1/3 of volume growth of inbound Chinese and sales of Duty-free shop. We forecasted sales volume of the ARITAUM and department store channel after FY14E, growth rate of 11% and declining -4% annually. 11% is the figure projected around 1/3 level of the 3Y average duty-free sales shop growth rate and nearly placed with the level of purchasing power of the Chinese inbounds.

Digital (I&C) : Emigration Emerging sales channel continuing expansion

Digital channel sales volume in 2015 is KRW 453B in our valuation with declining growth rate of 5% from 27% in FY14. Digital channels including internet platform and home shopping platform, has strong competitive point against traditional sales channels within accessibility and frequency. Digital sales are growing sharply by 3Y CAGR 37%. This trend still is expected to go further, showing high growth rate.

Local entities' sales: AP standout in China

AP's infiltration in China

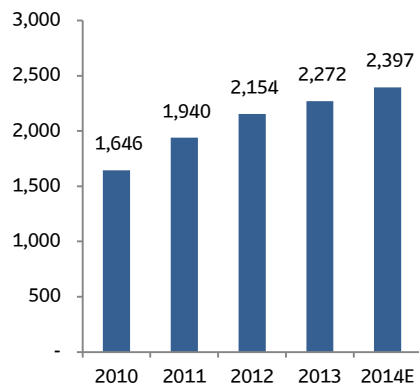
AP China is expected to show 10% OPM and KRW650B sales volume. In recovering OPM, three factors; 1) reduction of low end specialty store, Mamonde 2) expansion of Laneige in department store and Sephora 3) introduction of Innisfree road shop, targeting mid-end cosmetic market are expected to act as key drives.

Mamonde was AP's choice targeting China in the past. Even after Laneige successfully settled in as prestigious brand, Mamonde local shops nibbled AP's margin in China. AP's Margin rate in China was merely 3% in 2013 falling from 9% in 2010. To resolve this problem, AP started withdrawing distribution channels of Mamonde. There were approximately 500 Mamonde stores in China until 2013, now in 2014, only 300 shops remain. AP is planning to cut Mamonde stores down to 200 until the end of 2014. The expansion of Laneige, the high-end brand and Innisfree road shop is replacing the vacancy of Mamonde.

Declining level of deficit in France and USA

Overseas corporations other than China are considerably minor for AP. AP France's OPM will bounce back to -5% after channel restructuring, and recover 1% of OPM annually reflecting historic record. AP USA showed steady growth in volume reducing deficit range at the same time. We forecasted AP USA to keep this trend, sales volume growing in CAGR 5% along with OPM recovery of 1% annually. But as Japanese cosmetics market is the most intense and saturated market, it is likely for AP Japan to continue current suffering in business.

[Figure 22] Average money consumption of Chinese inbound travelers (USD)



Source: Korea Tourism Organization

[Table 5] Financial estimation of peer group companies (2013 & forecast)

LG H & H	
Ticker	051900 KS Equity
Sales (KRW Million)	4,326,255
EBIT	496,411
12M Forward P/E	26.75
EV/EBITDA	16.09
EV/CF	26.20
L'OREAL	
Ticker	OR FP Equity
Sales (EUR Million)	22,977
EBIT	3,875
12M Forward P/E	22.95
EV/EBITDA	13.65
EV/CF	16.62
SHANGHAI JAHWA-A	
Ticker	600315 CH Equity
Sales (CNY Million)	4,426
EBIT	752
12M Forward P/E	43.02
EV/EBITDA	33.16
EV/CF	30.74
AMORE PACIFIC COR	
Ticker	090430 KS Equity
Sales (KRW Million)	3,100,413
EBIT	369,837
12M Forward P/E	-
EV/EBITDA	11.35
EV/CF	13.13
PEER AVERAGE (Target multiple)	
5Y avg. 12M Forward P/E	30.91
5Y avg. 12M Forward EV/EBITDA	20.96
5Y avg. 12M Forward EV/CFO	14.52
Target P/E Ratio	
30.91x	

Source: Bloomberg, Data guide, Company data, YONSEI University student research team

Mass cosmetics market and Sulloc business; immobile

Mass cosmetics market In Korea will remain similar to current level of sales volume and profitability. Cosmetics market of Korea is matured with LG H&H, Ae-Kyung, P&G and Unilever involved in. AP has dominated Korean cosmetics market for over a decade, AP's competitiveness and profitability is unlikely to change in near future. Sulloc, the green tea brand also is not the kind of business to go through rapid change.

SG&A : You-ke triggering growth once more

Salaries & Wages

AP's salary expense in 2015 will be KRW 263B, 4.5% more than 2013. Forecasted future expense on salary and wage is in P*Q concept. P is the average annual salary per an employee while Q is the expected total employees. Average salary expense per employee is expected to grow in 3%, the 3Y CAGR of average salary increase. Total number of employees however, will decline by 1% annually due to abbreviation of Beauty planners.

Depreciation expenses

Depreciation expense in 2015 is expected to record KRW 54B, 7.5% more than 2013. Depreciation expenses are driven by capacities in use, beginning balance of PP&E each year was used. Each year, depreciation expenses were around 3% of beginning balance of PP&E historically. Escalating depreciation expenses show that tangible asset in the Proforma B/S will be in up-trend again, since AP's capacity is fully operated now.

Development expenses

Development expense of AP is forecasted to maintaining constant level of growth. We used 3Y historical growth rate of 3% in Development account. Current sales volume of AP is in sharp upstream, and the ratio of development expense to sales will converge to 1.8% from 2.5% of FY13, the past financial year.

Advertising expenses

AP has reduced advertising expense more than any other expenses. This reduction reflects AP's change of position in market. AP's advertisement was mainly for domestic customers. As abroad business became main focus for AP, advertising expense is expected to keep current level around KRW 28.5B. Advertising expenses - sales ratio diminishing to 8.1%.

Selling expenses

Selling expenses will escalate to KRW 578B till 2015. Unlike the advertising expenses, selling expenses will remain as the most crucial part of SG&A after the channel shift from DtD to Duty-free shops. DtD Sales to total domestic sales ratio of 2015 will step down to 17.7%, 9.3% less than FY13. Selling expenses to SG&A ratio will ascend accordingly to 35.7%, 7.6% more than FY13. The dominating sales volume increase in which AP is enjoying requires channel commissions to hold stores in duty free shops. This will appear in the form of restricted increment of selling expenses to sales ratio. Freight expenses on the other hand, will descend to around 1.8% to sales and maintain this level.

General administration expenses

Overall general administration expenses will step down due to reduced road shop channel growth. AP will take the conservative business plans on securing new road shops. As appeared by diminishing portion to the sales of domestic skincare, the importance of road shop channel is minor.

CoGs Forecast

AP's cost structure is approaching to the standard rate of CoGS and SG&A of global top-tiers like L'Oreal and Estee Lauder. We forecast that consolidated AP's CoGS to Sales rate will converge to 28% while non-consolidated CoGS to Sales rate converge to 30%. The gap of those two rates is the portion of outbound sales. As luxury lineups consumed in China aren't produced by AP China, the gap between two CoGS is AP's local entities abroad. By using CoGS and operating profit, SG&A of AP's local entities is calculated out, and this amount is added back to non-consolidated S&GA.

Peer Group & Target multiple

Following features were considered in choosing comparable firms. 1) Competitive advantage in beauty & Cosmetic market 2) comparable logic of AP to enjoy 3) comparable growth sentiment in Chinese beauty & cosmetic market 4) the ability to be perceived as strong market challenger, 5) having strong brand power in skin-care goods.

[Table 6] Computing target price (KRW)

Target Price (KRW)	
Computed Target Price	2,820,413
Tick adjustment	2,820,000
Market Price	2,277,000
Upside Potential	23.8%

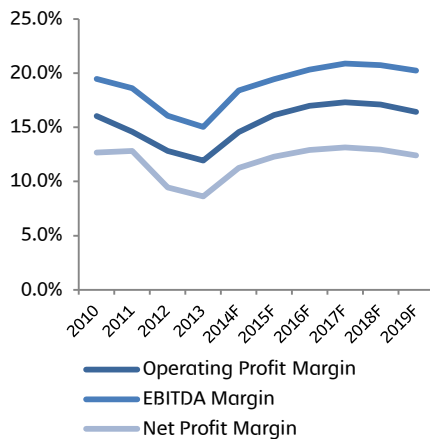
Source: Company Data, YONSEI University student research team

[Table 7] Compounded sales forecast

(2015 Forecast, KRW Billion)	
Domestic B&C	3,022
Outbound E&C	880
MC&S	483
Total	4,386

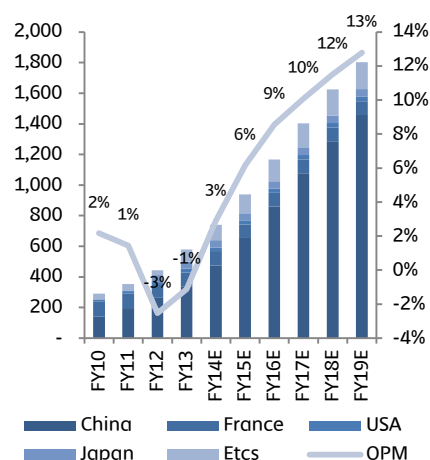
Source: Company Data, YONSEI University student research team

[Figure 23] Forecasting margin rate



Source: Company Data, YONSEI University student research team

[Figure 24] Forecast: skincare products sales by regional entities (KRW Billion)



Source: Company Data, YONSEI University student research team

We picked up 3 comparable firms; LG Household, L'Oreal and Shanghai Jahwa. LG Household is one the most competitive market challenger in Korea facing AP, sharing almost every channels and price bands that brands with AP in the market. L'Oreal and Lastly Shanghai Jahwa is the most competitive local cosmetics firm in China. Shanghai Jahwa has been growing rapidly in past 5 years at CAGR 12% although local Chinese don't prefer domestic brands.

We considered 23% of growth premium at target multiples since AP is the dominant player in Korean market. Its market share is almost 40% compounded with Innisfree and Etude house under the Amore-G included. DtD business made strong brand franchise with many killing goods for 50 years, allowing AP to conquer the beauty & cosmetic market in South Korea. It is the most distinctive market condition distinctive from other local markets of comparable firms except for LG H&H.

Financial Analysis

[Table 1] Financial snapshot (KRW Billion)

	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E
1) Profitability							
Rate of CoGS	29.7%	29.4%	28.0%	28.0%	28.0%	28.0%	28.0%
Rate of SG&A	57.4%	58.7%	57.4%	55.9%	55.1%	54.8%	55.1%
Operating Profit Margin	12.8%	11.9%	14.6%	16.1%	16.9%	17.2%	16.9%
EBITDA Margin	16.1%	15.0%	18.4%	19.4%	20.2%	20.7%	20.5%
EBT Margin	12.7%	11.7%	14.8%	16.2%	16.9%	17.2%	16.8%
Net Profit Margin	9.4%	8.6%	11.2%	12.1%	12.7%	12.9%	12.7%
2) Activity							
Inventory turnover	3.4	3.3	3.6	3.6	3.5	3.3	3.1
Fixed asset turnover	1.7	1.7	1.9	2.0	2.0	2.0	1.9
Cash conversion cycle	96.4	102.1	92.8	94.0	96.8	101.0	108.5
3) Liquidity							
Current ratio	193%	178%	182%	184%	181%	183%	183%
Quick ratio	129%	126%	126%	127%	126%	127%	127%
4) Solvency							
Borrowing to Equity	3%	6%	5%	5%	4%	4%	3%
Debt to Equity	29%	32%	30%	29%	29%	28%	28%
Interest coverage	171.9	149.2	253.3	301.1	339.8	388.0	397.8
5) ROE decomposition							
ROE	12.0%	10.9%	15.8%	16.7%	16.7%	15.9%	14.4%
Net Profit Margin	9.4%	8.6%	11.2%	12.1%	12.7%	12.9%	12.7%
Asset turnover	1.0	1.0	1.1	1.1	1.1	1.0	0.9
Financial Leverage	1.3	1.3	1.3	1.3	1.2	1.2	1.2
6) Shareholders' interest							
EPS	61,876	62,185	98,936	121,217	140,537	155,167	160,620
DPS	6,500	6,500	7,500	8,500	9,500	10,500	10,500
Dividend payout ratio	16.3%	16.6%	11.92%	11.02%	10.62%	10.63%	10.27%

Source: Company data, YONSEI university student research team

Worldwide level of profitability: Stable core margin

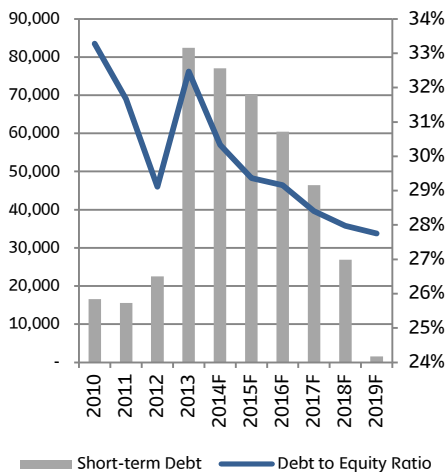
AP nourishes top level of operating profitability in domestic business relative to B&C industry. Two main drivers of profitability are 1) Solid strength of AP's brands 2) High weight of luxury skincare goods in sales. These two sources have worked as economic moats which kept AP to maintain the highest level of profitability compared to average OPM of 11% for LG H&H the 2nd B&C market player in Korea. Although AP's DtD channel is expected to decrease -3% annually, in accordance with persisting de-growth trend. In the view of total domestic businesses, we forecast AP's profitability bouncing back to above 16% of OPM, which is the global top tier profitability..

Domestic growth driven by You-ke

The concept of shopping in Seoul attracted You-ke effectively. The 'You-ke' initiated another growing force to AP's domestic business. You-ke opened new horizon for AP's business, duty free shop and ARITAUM. You-ke brought striking 3Y CAGR 46% taking the geographical advantage of Seoul. Moreover, Average money consumption per each You-ke has increased consecutively.

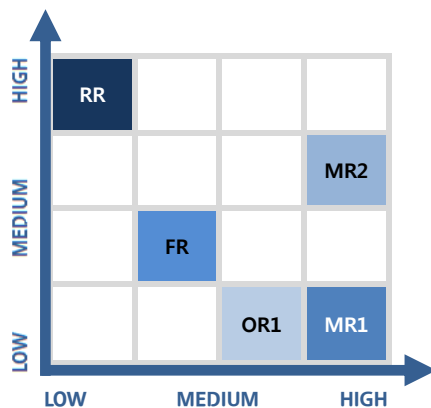
We forecast sales of duty free shop around KRW 1,064B in 2015. This is the main driver of profitability improvement. Booming number of You-ke improved profitability in both quantity and quality. Since 'You-ke' prefers expensive skincare goods, their existence ensures high margin rate. Duty free channel is expected to grow rapidly. From FY10 to FY13, Average growth rate of AP's duty free channel sales were around 40%. As 2014 dawns, duty free channel brought shocking news to the market. Recording YOY 200% of growth in FY14 1Q. We forecasted FY14E sales growth of duty free channel as 150%, and sales growth of ARITAUM as 11%. After FY14E these growth rates will decline -4% annually. ARITAUM's 11% is the figure projected around 1/3 level of the 3Y average You-ke growth rate and similar to purchasing power of the You-ke.

[Figure 25] AP's Short-term Debt (KRW Million) & Debt-to-Equity ratio (%)



Source: Company Data, YONSEI University student research team

[Figure 26] Risk Matrix of AP



Source: YONSEI University student research team

[Table 8] Risk factors & Mitigation Strategies

Market Risk	
Prevalent imitation issue in Chinese market	To expose and accuse imitation products, and consider legal actions to prevent damage to its brand image
Excessive competition in domestic market	To make an effort to obtain a new distribution channel
Financial Risk	
Fluctuations of exchange rates such as USD, CNY, JPY	To make a forward exchange contract about CNY and USD
Operation Risk	
Cannibalization effect among subsidiary brands	Primary brand is shifting to high-margin luxury brands
Regulatory Risk	
Prudent regulations and tariff policy of Chinese government	Observation of tariff rate and strengthen local entities

Source: YONSEI University student research team

Chinese rush to prestige goods overcoming trading down trend of South Korea consumers. Historically margin of the DtD sales is higher than margin if the other channels through distributors. So de-growth of DtD channel and trading down trend of South Korean consumer have deteriorated the OPM of AP -2% past 3 years. But rush of You-ke seems to be the new wave of consuming power of the luxury brands. Generally, You-ke prefer 1) brands with higher price band 2) Skin care products have higher margin. Past 3 years, both quality and quantity growth of Duty-free shop and other sales volume in other platforms defend the profitability domestic business. After 2014, we forecast that You-ke's overwhelming purchasing power will generate additional 3% of OPM.

Strategic flexibility with soundness leverage structure

AP has always stuck to the strategy of developing own brands power and making new market by discovering consumers' hidden need. AP's principle is keeping the business priority concentrates its own strength. It appears to the AP's core competitiveness in B&C industry now, and also appears as well-controlled financial leverage. AP has not been a corporation takes the strategy of M&A friendly. AP has kept its debt dependency in very low level of borrowing dependence ratio 5%. AP has a capability to invest by inter-generated cash flow. AP stocks cash and cash equivalent nearly KRW 500B since AP has kept defensive business strategy and financial structure.

Investment Risks

Below is analysis of the main risks that could affect our target price. The probability and impact is presented in figure 26.

Market Risk | Prevalent imitation issue in Chinese market (MR1)

Along with AP's dramatic growth in Chinese market, infiltration of imitation products has fiercely intensified in the past few years. Imitation issue is very sensitive, especially in cosmetics industry. Cosmetics products are directly related to the safety issue and skin trouble in perspective of customers using it. Imitation products relatively have high possibility to damage AP's brand image by side effects. As one of the most important purchase decision factors is brand image in cosmetics market, prevalent imitation products could harm AP's business seriously. AP is rigorously exposing and accusing imitation products, considering taking legal actions to prevent potential damage to its brand image.

Market Risk | Excessive competition in domestic market (MR2)

Korean cosmetics Industry is a highly mature industry with the market form of oligopoly. Since existing distribution channels including department stores and brand shops have continuously presented a slower growth, AP is making an effort to obtain a new distribution channel for each brand.

Financial Risk | Fluctuations of exchange rates (FR)

Amore Pacific is exposed to exchange rate risk since approximately 20% of its total revenue is derived from foreign market sales. AP's foreign sales consist of US, China, Japan, Philippines, etc. and sales from Chinese market account for the largest portion; China accounts 62.7% of total foreign sales in 2013. As Chinese market is the biggest foreign sales driver, CNY fluctuation affects AP's margin the most. In addition, CNY fluctuation affects the demands of Chinese tourists.

Although China has adhered to the fixed exchange rate policy, Chinese central bank partially adopted floated system policy in July 2014 referring Yuan-Dollar exchange transactions. From AP's point of view, this action of Chinese government would raise volatility of CNY exchange rate and intensify its influence to AP. In order to hedge exchange fluctuation risk, AP made a forward exchange contract on CNY and USD with Citibank in September 2013. This contract is expired in July 2016.

Operational Risk | Cannibalization effect among subsidiary brands (OR1)

Since AP's subsidiary brands have similar products portfolio, there are doubtful thoughts that it would suffer from cannibalization effect. If new products with low margin take the market share of existing high-margin products, it would diminish AP's profitability. However, each brand has its own concept and identity. They target different market and different customers. Moreover, AP's primary brand is shifting to high-margin luxury brands. This results in low likelihood of cannibalization effect.

Regulatory Risk | Prudent regulations and tariff policy of Chinese government (RR)

In cosmetics products trade, Chinese government has adhered to a tariff policy so far, and it would continue for a while. Chinese government specified cosmetic ingredients, allowing manufacturing of cosmetic products, along with high tariff rates on foreign cosmetics products, especially decorative makeup products. Since AP is also one of the subjects of this tariff policy, there exists likelihood of troubles in case of Chinese tightening restrictions.

Pro-forma statement of income (Consolidated, KRW M)

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	2,272,312	2,554,723	2,849,462	3,100,413	3,894,808	4,385,835	4,856,338	5,274,102	5,578,362	5,728,143
CoGS	700,160	774,623	847,204	911,807	1,090,546	1,228,034	1,359,775	1,476,749	1,561,941	1,603,880
Gross profit	1,572,153	1,780,100	2,002,258	2,188,607	2,804,262	3,157,801	3,496,563	3,797,353	4,016,421	4,124,263
S&GA	1,207,688	1,407,249	1,636,920	1,818,769	2,237,562	2,452,398	2,676,070	2,892,623	3,076,385	3,205,962
Operating profit	364,465	372,851	365,339	369,838	566,700	705,403	820,494	904,731	940,036	918,301
Non-operating profit	16,989	77,047	27,108	35,292	25,477	25,815	28,039	29,406	31,037	33,157
Non-operating expense	15,835	20,256	30,729	41,604	37,143	29,030	29,100	31,758	29,963	30,274
Earnings before tax	365,620	429,642	361,718	363,526	578,365	708,619	821,555	907,082	938,962	915,417
Tax expense	78,011	102,373	92,460	96,167	143,518	175,840	203,865	225,088	232,999	227,156
Income from continuing operation	287,609	327,269	269,258	267,359	434,847	532,779	617,691	681,995	705,964	688,261
G/L from discontinued operation	-	-	-	-	-	-	-	-	-	-
Net income	287,609	327,269	269,258	267,359	434,847	532,779	617,691	681,995	705,964	688,261
*Depreciation & Amortization	78,011	102,373	92,460	96,167	150,030	146,124	162,065	188,604	202,357	219,353
*EBITDA	442,476	475,224	457,799	466,005	716,731	851,528	982,559	1,093,335	1,142,394	1,137,653
*Effective tax rate	21%	27%	25%	26%	25%	25%	25%	25%	25%	25%
*Cash flow from operation	360,551	403,014	275,581	426,657	587,097	643,985	768,979	845,658	871,569	872,065
OP Margin	16.0%	14.6%	12.8%	11.9%	14.6%	16.1%	16.9%	17.2%	16.9%	16.0%
EBT Margin	16.1%	16.8%	12.7%	11.7%	14.8%	16.2%	16.9%	17.2%	16.8%	16.0%
EBITDA Margin	19.5%	18.6%	16.1%	15.0%	18.4%	19.4%	20.2%	20.7%	20.5%	19.9%
NP Margin	12.7%	12.8%	9.4%	8.6%	11.2%	12.1%	12.7%	12.9%	12.7%	12.0%
EPS	49,199	55,983	46,060	45,735	74,386	91,138	105,663	116,663	120,763	117,735

Source : Dataguide, YONSEI university student research team

Common size I/S (Consolidated, KRW M)

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
CoGS	30.8%	30.3%	29.7%	29.4%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Gross profit	69.2%	69.7%	70.3%	70.6%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
S&GA	53.1%	55.1%	57.4%	58.7%	57.4%	55.9%	55.1%	54.8%	55.1%	56.0%
Operating profit	16.0%	14.6%	12.8%	11.9%	14.6%	16.1%	16.9%	17.2%	16.9%	16.0%
Non-operating profit	0.7%	3.0%	1.0%	1.1%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%
Non-operating expense	0.7%	0.8%	1.1%	1.3%	1.0%	0.7%	0.6%	0.6%	0.5%	0.5%
Earnings before tax	16.1%	16.8%	12.7%	11.7%	14.8%	16.2%	16.9%	17.2%	16.8%	16.0%
Tax expense	3.4%	4.0%	3.2%	3.1%	3.7%	4.0%	4.2%	4.3%	4.2%	4.0%
Income from continuing operation	12.7%	12.8%	9.4%	8.6%	11.2%	12.1%	12.7%	12.9%	12.7%	12.0%
G/L from discontinued operation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	12.7%	12.8%	9.4%	8.6%	11.2%	12.1%	12.7%	12.9%	12.7%	12.0%

Source : Dataguide, YONSEI university student research team

Pro-forma statement of balance (Consolidated, KRW M)

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Assets	2,481,829	2,815,428	3,026,193	3,401,849	3,804,115	4,309,276	4,916,257	5,605,250	6,306,738	7,012,029
Non-current assets	1,736,636	2,061,743	2,222,004	2,434,275	2,767,029	3,127,399	3,553,943	4,065,694	4,570,218	5,078,788
Tangible assets	1,603,380	1,655,475	1,766,807	1,936,044	2,131,515	2,328,381	2,558,019	2,804,409	3,029,242	3,227,765
Investment property	0	185,546	203,232	201,632	243,884	273,696	306,275	354,854	397,575	440,929
Intangible assets	48,541	115,204	121,208	132,572	152,091	170,940	194,387	222,694	250,035	277,945
Long-term marketable securities	28,045	32,640	34,224	41,913	44,664	50,808	58,753	66,296	74,774	83,290
Investment in associates	4,158	4,665	5,093	7,886	7,175	8,456	10,105	11,031	12,584	14,068
Deferred tax assets	19,860	28,684	31,870	36,606	39,918	45,657	52,193	59,238	66,809	74,276
Other non-current assets	32,653	39,530	59,570	77,623	71,699	88,125	101,792	112,111	128,566	142,792
Current assets	745,193	753,684	804,189	967,574	1,037,086	1,181,878	1,362,314	1,539,556	1,736,520	1,933,242
Cash&cash equivalents	159,142	187,708	170,707	294,012	311,314	385,053	479,224	538,936	611,243	684,340
Short-term marketable securities	173,374	155,736	142,499	140,193	212,542	248,642	291,684	347,686	387,325	430,696
Account receivables	150,624	166,274	190,256	223,287	237,839	274,398	314,369	355,266	401,533	446,416
Inventories	208,165	225,803	267,433	282,761	319,158	366,849	413,208	472,854	533,001	591,164
Other current assets	17,099	18,163	33,294	27,322	32,315	39,542	42,120	49,024	55,688	61,106
Noncurrent asset held for sale	36,789	0	0	0	0	0	0	0	0	0
Liabilities	619,748	677,125	682,406	833,717	894,072	1,006,000	1,160,999	1,305,336	1,464,177	1,624,906
Non-current liabilities	239,331	251,141	265,165	291,018	325,090	363,951	410,298	462,195	513,731	564,170
Long-term account payable	0	0	0	0	0	0	0	0	0	0
Long-term debt	18,025	61,660	55,773	77,238	79,931	89,269	105,588	118,092	132,990	148,731
Long-term employee benefits	35,247	40,002	47,542	44,274	54,440	61,818	68,288	79,494	89,172	98,663
Long-term liability provision	0	0	0	0	0	0	0	0	0	0
Deferred tax liabilities	92,425	138,460	149,703	158,099	184,021	207,302	234,267	269,298	302,306	335,710
Other long-term liabilities	93,634	11,020	12,147	11,409	14,306	15,985	17,737	20,698	23,145	25,642
Current liabilities	380,417	425,983	417,240	542,699	568,982	642,049	750,701	843,142	950,446	1,060,735
Short-term account payable	221,906	259,260	251,126	298,018	333,081	370,809	428,061	487,054	546,609	609,190
Short-term debt	16,544	15,581	22,553	82,397	76,924	69,902	60,083	46,083	26,623	1,552
Short-term liability provision	13,634	5,755	6,702	3,622	6,750	7,259	7,413	9,280	10,192	11,172
Other short-term liabilities	128,332	145,387	136,859	158,663	181,969	200,668	231,132	264,222	295,825	329,702
Equity	1,862,081	2,138,303	2,343,787	2,568,132	2,947,893	3,425,540	3,981,786	4,595,869	5,234,103	5,854,499
Controlling interests	1,852,518	2,128,075	2,333,599	2,554,406	2,931,272	3,405,334	3,957,406	4,566,881	5,200,324	5,816,065
Stockholders' equity	34,508	34,508	34,508	34,508	34,508	34,508	34,508	34,508	34,508	34,508
Additional paid-in capital	720,392	720,392	720,463	720,471	720,471	720,471	720,471	720,471	720,471	720,471
AOCI	-1,051	-2,435	-12,011	-14,021	-20,187	-20,187	-20,187	-20,187	-20,187	-20,187
Other paid-in capital	-1,810	-1,810	-1,810	-1,810	-1,810	-1,810	-1,810	-1,810	-1,810	-1,810
Retained earnings	1,100,479	1,377,420	1,592,449	1,815,257	2,198,289	2,672,351	3,224,424	3,833,898	4,467,342	5,083,083
Non-controlling interests	9,563	10,228	10,188	13,725	16,622	20,206	24,380	28,989	33,778	38,434
Total outstanding shares	6,901,632	6,901,632	6,901,632	6,901,632	6,901,632	6,901,632	6,901,632	6,901,632	6,901,632	6,901,632
Common stocks	5,845,849	5,845,849	5,845,849	5,845,849	5,845,849	5,845,849	5,845,849	5,845,849	5,845,849	5,845,849
Preferred stocks	1,055,783	1,055,783	1,055,783	1,055,783	1,055,783	1,055,783	1,055,783	1,055,783	1,055,783	1,055,783

Source : Dataguide, YONSEI university student research team

Common size B/S (Consolidated, KRW M)

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Non-current assets	70.0%	73.2%	73.4%	71.6%	72.7%	72.6%	72.3%	72.5%	72.5%	72.4%
Tangible assets	64.6%	58.8%	58.4%	56.9%	56.0%	54.0%	52.0%	50.0%	48.0%	46.0%
Investment property	0.0%	6.6%	6.7%	5.9%	6.4%	6.4%	6.2%	6.3%	6.3%	6.3%
Intangible assets	2.0%	4.1%	4.0%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Long-term marketable securities	1.1%	1.2%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Investment in associates	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Deferred tax assets	0.8%	1.0%	1.1%	1.1%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%
Other non-current assets	1.3%	1.4%	2.0%	2.3%	1.9%	2.0%	2.1%	2.0%	2.0%	2.0%
Current assets	30.0%	26.8%	26.6%	28.4%	27.3%	27.4%	27.7%	27.5%	27.5%	27.6%
Cash&cash equivalents	6.4%	6.7%	5.6%	8.6%	8.2%	8.9%	9.7%	9.6%	9.7%	9.8%
Short-term marketable securities	7.0%	5.5%	4.7%	4.1%	5.6%	5.8%	5.9%	6.2%	6.1%	6.1%
Account receivables	6.1%	5.9%	6.3%	6.6%	6.3%	6.4%	6.4%	6.3%	6.4%	6.4%
Inventories	8.4%	8.0%	8.8%	8.3%	8.4%	8.5%	8.4%	8.4%	8.5%	8.4%
Other current assets	0.7%	0.6%	1.1%	0.8%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%
Noncurrent asset held for sale	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liabilities	25.0%	24.1%	22.5%	24.5%	23.5%	23.3%	23.6%	23.3%	23.2%	23.2%
Non-current liabilities	9.6%	8.9%	8.8%	8.6%	8.5%	8.4%	8.3%	8.2%	8.1%	8.0%
Long-term account payable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term debt	0.7%	2.2%	1.8%	2.3%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Long-term employee benefits	1.4%	1.4%	1.6%	1.3%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Long-term liability provision	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred tax liabilities	3.7%	4.9%	4.9%	4.6%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Other long-term liabilities	3.8%	0.4%	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Current liabilities	15.3%	15.1%	13.8%	16.0%	15.0%	14.9%	15.3%	15.0%	15.1%	15.1%
Short-term account payable	8.9%	9.2%	8.3%	8.8%	8.8%	8.6%	8.7%	8.7%	8.7%	8.7%
Short-term debt	0.7%	0.6%	0.7%	2.4%	2.0%	1.6%	1.2%	0.8%	0.4%	0.0%
Short-term liability provision	0.5%	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other short-term liabilities	5.2%	5.2%	4.5%	4.7%	4.8%	4.7%	4.7%	4.7%	4.7%	4.7%
Equity	75.0%	75.9%	77.5%	75.5%	77.5%	79.5%	81.0%	82.0%	83.0%	83.5%
Controlling interests	74.6%	75.6%	77.1%	75.1%	77.1%	79.0%	80.5%	81.5%	82.5%	82.9%
Stockholders' equity	1.4%	1.2%	1.1%	1.0%	0.9%	0.8%	0.7%	0.6%	0.5%	0.5%
Additional paid-in capital	29.0%	25.6%	23.8%	21.2%	18.9%	16.7%	14.7%	12.9%	11.4%	10.3%
AOCI	0.0%	-0.1%	-0.4%	-0.4%	-0.5%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%
Other paid-in capital	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Retained earnings	44.3%	48.9%	52.6%	53.4%	57.8%	62.0%	65.6%	68.4%	70.8%	72.5%
Non-controlling interests	0.4%	0.4%	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%

Source : Dataguide, YONSEI university student research team

Pro-forma statement of income (Non-consolidated, KRW M)

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	2,058,263	2,293,407	2,510,394	2,667,650	3,203,645	3,505,340	3,757,215	3,956,270	4,053,806	4,035,211
CoGS	667,365	732,731	805,320	848,339	897,021	981,495	1,052,020	1,107,756	1,135,066	1,129,859
Gross profit	1,390,898	1,560,676	1,705,074	1,819,311	2,306,624	2,523,844	2,705,195	2,848,514	2,918,740	2,905,352
S&GA	1,034,857	1,190,814	1,330,215	1,443,760	1,620,077	1,727,537	1,826,366	1,908,143	1,975,655	2,023,122
Operating profit	356,041	369,862	374,859	375,551	686,547	796,308	878,829	940,372	943,085	882,230
Non-operating profit	15,091	65,721	22,255	19,134	6,373	6,525	6,716	6,538	6,593	6,616
Non-operating expense	10,990	15,163	25,660	31,309	16,572	18,038	15,772	16,794	16,868	16,478
Earnings before tax	360,142	420,420	371,454	363,376	676,348	784,795	869,773	930,116	932,810	872,367
Tax expense	72,102	101,611	95,140	92,565	92,566	92,567	92,568	92,569	92,570	92,571
Income from continuing operation	288,040	318,809	276,314	270,811	583,782	692,228	777,205	837,547	840,240	779,796
G/L from discontinued operation	0	0	0	0	0	0	0	0	0	0
Net income	288,040	318,809	276,314	270,811	583,782	692,228	777,205	837,547	840,240	779,796
*Depreciation & Amortization	69,363	68,545	88,358	103,739	107,127	111,767	121,508	131,428	143,307	155,544
*EBITDA	425,404	438,407	463,217	479,290	793,674	908,075	1,000,337	1,071,800	1,086,392	1,037,774
*Effective tax rate	20.3%	27.5%	25.4%	24.6%	13%	12%	11%	10%	10%	10%
EBITDA Margin	20.7%	19.1%	18.5%	18.0%	24.8%	25.9%	26.6%	27.1%	26.8%	25.7%
OP Margin	17.3%	16.1%	14.9%	14.1%	21.4%	22.7%	23.4%	23.8%	23.3%	21.9%
EBT Margin	17.5%	18.3%	14.8%	13.6%	21.1%	22.4%	23.1%	23.5%	23.0%	21.6%
NP Margin	14.0%	13.9%	11.0%	10.2%	18.2%	19.7%	20.7%	21.2%	20.7%	19.3%

Source : Dataguide, YONSEI university student research team

Common size I/S (Non-consolidated, KRW M)

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
CoGS	32.4%	31.9%	32.1%	31.8%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Gross profit	67.6%	68.1%	67.9%	68.2%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
S&GA	50.3%	51.9%	53.0%	54.1%	50.6%	49.3%	48.6%	48.2%	48.7%	50.1%
Operating profit	17.3%	16.1%	14.9%	14.1%	21.4%	22.7%	23.4%	23.8%	23.3%	21.9%
Non-operating profit	0.7%	2.9%	0.9%	0.7%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Non-operating expense	0.5%	0.7%	1.0%	1.2%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Earnings before tax	17.5%	18.3%	14.8%	13.6%	21.1%	22.4%	23.1%	23.5%	23.0%	21.6%
Tax expense	3.5%	4.4%	3.8%	3.5%	2.9%	2.6%	2.5%	2.3%	2.3%	2.3%
Income from continuing operation	14.0%	13.9%	11.0%	10.2%	18.2%	19.7%	20.7%	21.2%	20.7%	19.3%
G/L from discontinued operation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	14.0%	13.9%	11.0%	10.2%	18.2%	19.7%	20.7%	21.2%	20.7%	19.3%
*Depreciation & Amortization	3.4%	3.0%	3.5%	3.9%	3.3%	3.2%	3.2%	3.3%	3.5%	3.9%
*EBITDA	20.7%	19.1%	18.5%	18.0%	24.8%	25.9%	26.6%	27.1%	26.8%	25.7%

Source : Dataguide, YONSEI university student research team

DCF Valuation : Forecasting the future FCFF

A-1) FCFF in forecasting period (KRW M)

	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
EBIT	566,700	705,403	820,494	904,731	940,036	918,301
NOPLAT	442,026	550,215	639,985	705,690	733,228	716,274
Adjusted tax rate	22%	22%	22%	22%	22%	22%
(+) Depreciation	150,030	146,124	162,065	188,604	202,357	219,353
(-) CAPEX	276,374	284,519	327,993	355,847	345,333	328,828
(-) NWC	15,887	46,522	29,078	41,549	46,859	40,466
FCFF	299,795	365,298	444,979	496,897	543,394	566,333

Source : Dataguide, YONSEI university student research team

A-2) FCF out of forecasting period : HH model (KRW M)

	FY20E	FY21E	FY22E	FY23E	FY24E
FCFF	622,967	679,034	733,357	784,692	831,773
Adjusted FCFF growth rate	10%	9%	8%	7%	6%
	FY25E	FY26E	FY27E	FY28E	FY29E
FCFF	873,362	908,296	935,545	954,256	963,798
Adjusted FCFF growth rate	5%	4%	3%	2%	1%

Source : Dataguide, YONSEI university student research team

A-3) DCF assumption table : Value indicators

WACC	5.11%
Market return (10Y)	5.18%
Market risk premium	5.00%
Beta (1Y)	0.57x
Risk free rate (5Y Government bond)	2.44%
Wd	5%
We	95%
Cd	3%
Ce	5.2690%
g	0%

Source : Dataguide, YONSEI university student research team

*5% as the market risk premium is an adjusted value. Market risk premium would be 2.74%, subtracting 2.44%(Rf) from 5.18%. But 2.74% of market risk premium isn't fair empirically.

B-1) Terminal value following the constant growth model (g=0, KRW M)

Terminal Value	18,878,704
PV of Terminal value	8,856,932
PV of FCFF	7,160,185
(+) Non-operating assets	958,199
(-) Debts	159,171
(-) Market cap. Of preference stock	1,122,297
Equity Value	15,693,848
Target Price (KRW)	2,684,614

Source : Dataguide, YONSEI university student research team

B-2) Sensitivity Analysis : Calculation matrix by using different WACC and G (KRW)

		WACC									
		4.7%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%
Terminal Growth rate	0.0%	2,950,336	2,879,643	2,811,909	2,746,954	2,684,614	2,624,738	2,567,187	2,511,829	2,458,546	2,407,225
	0.1%	2,988,162	2,915,373	2,845,688	2,778,917	2,714,884	2,653,428	2,594,399	2,537,659	2,483,081	2,430,546
	0.2%	3,027,667	2,952,654	2,880,903	2,812,211	2,746,388	2,683,263	2,622,676	2,564,481	2,508,541	2,454,731
	0.3%	3,068,966	2,991,590	2,917,648	2,846,920	2,779,204	2,714,315	2,652,084	2,592,354	2,534,979	2,479,827
	0.4%	3,112,183	3,032,294	2,956,024	2,883,136	2,813,414	2,746,660	2,682,691	2,621,341	2,562,453	2,505,887
	0.5%	3,157,456	3,074,889	2,996,142	2,920,960	2,849,110	2,780,379	2,714,572	2,651,509	2,591,025	2,532,968
	0.6%	3,204,934	3,119,509	3,038,124	2,960,501	2,886,391	2,815,563	2,747,808	2,682,933	2,620,762	2,561,131
	0.7%	3,254,784	3,166,304	3,082,102	3,001,879	2,925,364	2,852,309	2,782,487	2,715,693	2,651,736	2,590,443
	0.8%	3,307,186	3,215,435	3,128,223	3,045,225	2,966,148	2,890,723	2,818,706	2,749,876	2,684,027	2,620,975
	0.9%	3,362,342	3,267,082	3,176,647	3,090,683	3,008,871	2,930,921	2,856,569	2,785,576	2,717,721	2,652,804
	1.0%	3,420,476	3,321,444	3,227,551	3,138,411	3,053,676	2,973,032	2,896,192	2,822,897	2,752,910	2,686,016

Source : Dataguide, YONSEI university student research team

C-1) Terminal value with using EV/EBITDA (KRW M)

FY19E EBITDA	1,137,653		
Target multiple (x)	13.31	20.96	19.43
Terminal value	15,136,564	23,849,895	22,107,229
PV of terminal value	11,683,719	18,409,428	17,064,286
PV of FCFF	2,341,454		
(+) Non-operating assets	958,199		
(-) Debts	159,171		
(-) Market cap. Of preference stock	1,122,297		
Equity Value	13,701,904	20,427,612	19,082,471
Target Price (KRW)	2,343,869	3,494,379	3,264,277

Source : Dataguide, YONSEI university student research team

C-2) Sensitivity analysis : the calculation matrix of using different EV/EBITDA (KRW)

EV/EBITDA (x)	13	14	15	16	17	18	19	20
Target price (KRW)	2,356,441	2,447,741	2,539,042	2,630,342	2,721,643	2,812,943	2,904,244	2,995,544

Source : Dataguide, YONSEI university student research team

ROE decomposition: Firms in B&C industry (5Y average)

Ticker	Corporation	ROE (%)	Tax Burden (%)	Interest Burden (%)	EBIT Margin (%)	Asset Turnover (x)	Financial Leverage (x)	Sales growth (%)
090430 KS Equity	AMOREPACIFIC COR	13.5	0.7	1.0	14.3	1.0	1.3	13.1
051900 KS Equity	LG HOUSEHOLD & H	25.9	0.7	1.0	11.2	1.6	2.4	17.2
OR FP Equity	L'OREAL	14.7	0.7	1.0	16.0	0.8	1.6	5.6
600315 CH Equity	SHANGHAI JAHWA-A	23.2	0.8	1.2	11.9	1.4	1.4	12.4
EL US Equity	ESTEE LAUDER	31.4	0.7	0.9	13.5	1.5	2.4	8.5
4911 JP Equity	SHISEIDO CO LTD	4.4	0.9	0.7	6.1	0.9	2.3	2.0
PG US Equity	PROCTER & GAMBLE	17.8	0.8	0.9	18.7	0.6	2.1	0.9
KMB US Equity	KIMBERLY-CLARK	35.9	0.7	0.9	13.7	1.1	3.8	1.7
JNJ US Equity	JOHNSON&JOHNSON	21.2	0.8	0.9	26.1	0.6	1.9	1.7

Source : Bloomberg, YONSEI university student research team

Sensitivity analysis : Target multiple (x, KRW)

Target P/E (15E)	24.91	26.41	27.91	29.41	30.91	32.41	33.91	35.41	36.91
Target price (KRW)	2,270,185	2,406,892	2,543,599	2,680,305	2,817,012	2,953,719	3,090,426	3,227,133	3,363,840
Target EV/EBITDA (15E)	16.96	17.96	18.96	19.96	20.96	21.96	22.96	23.96	24.96
Target price (KRW)	2,415,756	2,561,420	2,707,083	2,852,747	2,998,411	3,144,074	3,289,738	3,435,402	3,581,065
Target EV/CFO (15E)	20.52	21.52	22.52	23.52	24.52	25.52	26.52	27.52	28.52
Target price (KRW)	2,205,171	2,315,332	2,425,493	2,535,654	2,645,815	2,755,976	2,866,137	2,976,298	3,086,459

Source : Bloomberg, Dataguide, YONSEI university student research team

Forecasting : Sales

In sales forecasting, we broke total AP's business down to 3 pieces, AP's own business to Domestic B&C business which is summation of Domestic Skincare and MC&S and oversea B&C business.

Total sales (KRW B)

(KRW B)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Domestic B&C	1,623	1,825	1,989	2,088	2,743	3,022	3,255	3,440	3,528	3,505
Outbound E&C	267	327	422	545	691	880	1,099	1,318	1,525	1,693
MC&S	295	349	402	437	461	483	502	516	526	531
Total sales	2,185	2,501	2,814	3,070	3,895	4,386	4,856	5,274	5,578	5,728

Source : Company, YONSEI university student research team

1) Domestic Skincare Sales forecasting: Vacuum-cleaning purchasing power of inbound Chinese

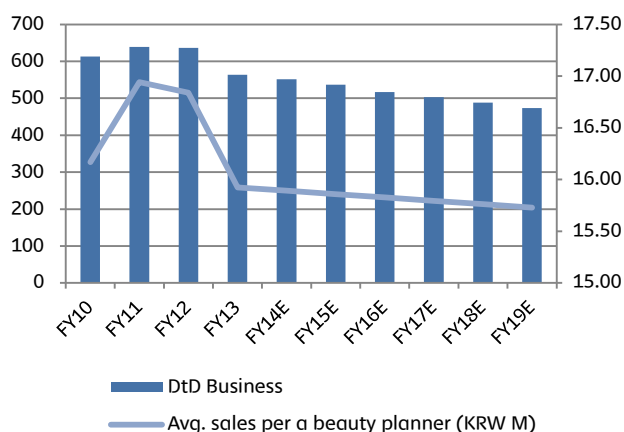
1-A) DtD : De-growth of DtD sales and beauty planner.

We forecast KRW 536B in 2015, with around 3% de-growth rate annually. Past 3 years, DtD business sales growth have slowed down, and currently shows de-growth pattern by 3Y CAGR -2.5%. This figure is similar by 3Y CAGR -2.5 which is the rate of growth rate of DtD planner. DtD business will be depressed certainly with main reason is the channel preference shift of consumers. So we adjust 3Y CAGR de-growth rate of DTD planners to forecasting, and AP's DtD business sales volume will de-escalate around 3% annually.

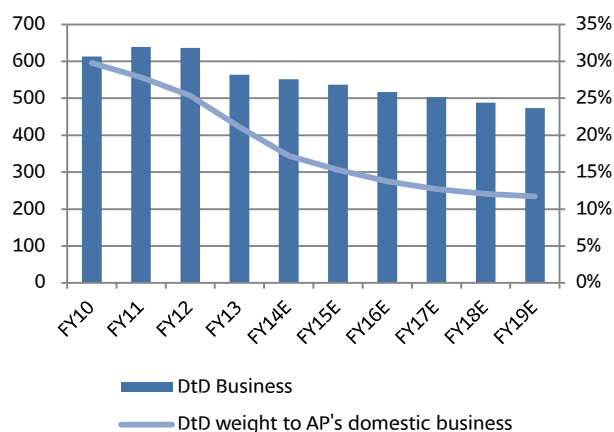
(KRW B)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
DtD Business	613	639	636	564	551	536	517	503	488	473
% Growth	10.1%	4.2%	-0.3%	-11.4%	-2.2%	-2.7%	-3.6%	-2.6%	-3.0%	-3.1%
Number of beauty planners	37900	37700	37800	35400	34691	33825	32669	31872	30985	30093
% Growth		-0.5%	0.3%	-6.3%	-2.0%	-2.5%	-3.4%	-2.4%	-2.8%	-2.9%

Source : Company, YONSEI university student research team

[Figure : DtD sales and Avg. sales per a planner. KRW B, KRW M]



[Figure : DtD Sales and weight to domestic B&C sales. KRW B]



Source : Company, YONSEI university student research team

1-B) Duty free shop: Strong performance with double-digit growth, driven by 'You-ke'

We forecast 2015 sales of duty free around KRW 1,064B. Duty free channel is expected to grow harshly. Chinese inbound traveler called 'You-ke' have escalated striking growth rate of 3Y CAGR 46%. Moreover, Average money consumption per a chinese inbound traveler have risen double digit growth rate annually. From FY10 to FY13, Average sales growth rate of AP's duty free channel is around 40%. AP's duty free channel recorded growth rate, YOY 200% in FY14 1H. We forecasted FY14E 150 % of soundness annual growth rate. After FY15, growth rate going down to 20% of mean level and decline -5% annually. Additional facts that make AP's business more attractive are Sin-ra duty-free shop began its business in Changi airport and succeeded to get the award of contract in Macau airport.

(KRW B)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Duty free shop (in airports)	132	182	259	355	887	1,064	1,222	1,343	1,409	1,408
% Growth		37.7%	41.7%	37.3%	149.9%	19.9%	14.9%	9.9%	4.9%	-0.1%
Visited Youke (thousands)	1,012	1,313	2,034	3,140	4,414					
% Growth		29.7%	54.9%	54.4%	40.6%					
Avg. per capita consumption (\$)	1,646	1,940	2,154	2,272	2,397					
% Growth		17.8%	11.0%	5.5%	5.5%					

Source : Company, YONSEI university student research team

1-C) ARITAUM, wholesales, department stores: Restricted volume growth to domestics while remaining upside with Chinese inbounds.

Past 3 years, the sales volume of wholesales meet certain level as KRW 170B. AP's sales volume in wholesales depends on only Domestic consumers, so we forecasted sales level of wholesales will maintain current level. Meanwhile, AP's ARITAUM (which is the road shop franchise of AP) growth rate keeps CAGR 15%. It was also driven by 'You-Ke', ratio around 1/3 level of volume growth of inbound Chinese and sales of Duty-free shop. Though sales level of department store channel showed weaken level of growth like ARITAUM, current preference sentiment caused by Chinese travelers is very strong and AP set up a buying limit, which is Personal buying allowance of 3 sets on its luxury brand, like Hera, Sulwasoo. We forecasted sales volume of the ARITAUM and department store channel after FY14E, growth rate of 11% and declining -4% annually, 11% is the figure projected around 1/3 level of the 3Y average duty-free sales shop growth rate and nearly placed with the level of purchasing power of the Chinese inbounds.

(Stores)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Discount store	166	164	179	167	168	169	166	166	166	165
% Growth	5.5%	-0.8%	9.0%	-6.7%	0.5%	0.9%	-1.8%	-0.1%	-0.3%	-0.7%
Discount store	338	353	377	382	387	392	397	402	407	412
Sales per a store	49.0	46.5	47.5	43.7	43.4	43.2	41.9	41.4	40.7	39.9
ARITAUM (Roadshop)	265	310	338	376	418	452	475	485	481	462
% Growth	-2.3%	17.1%	9.0%	11.1%	11.1%	8.1%	5.1%	2.1%	-0.9%	-3.9%
ARITAUM stores	1194	1259	1268	1275	1290	1305	1315	1325	1330	1335
Sales per a shop	22.2	24.6	26.7	29.5	32.4	34.6	36.1	36.6	36.2	34.6
Department store	282	292	298	292	296	297	297	299	300	301
% Growth	-6.0%	3.7%	2.2%	-2.0%	1.3%	0.5%	-0.1%	0.6%	0.3%	0.3%
Department store	144	152	179	167	170	173	176	179	182	185
Sales per a shop	195.5	192.1	166.7	175.0	174.1	171.9	168.9	167.0	164.7	162.5

Source : Company, YONSEI university student research team

1-D) Internet & Homeshopping: Emigration of domestic buyers nourishing aggregated mileage benefit.

We forecast the sales volume of I&C channel will realize KRW 453B in FY15E, with declining growth rate of 5% from 27% in FY14 growth rate expectation. Internet & Homeshopping platform (Below I&C channel) has a strong competitive point to the another old distribution channels. The most reasonable description is that these new channels allow customers to click the buy button in their home, rather than going out. Because of its accessibility and frequency, Internet & Homeshopping is growing up sharply, 3Y CAGR 37%. But AP doesn't have a plan to develop these channels by primary capital investment because of the possibility of carnivalization. So past growth rate was sound growth trend of developed IT technology and translation of consumer pattern, and this channel will continue to appeal to domestic consumer and show standout growth rate.

(KRW B)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Internet & Homeshopping	116	182	219	292	371	453	529	593	634	646
% Growth	35.4%	57.4%	19.9%	33.6%	27.0%	22.0%	17.0%	12.0%	7.0%	2.0%

Source : Company, YONSEI university student research team

1) Domestic skincare sales forecasting : arranged by distribution channel (KRW M)

(KRW B)	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Gross sales	1,413	1,623	1,825	1,989	2,088	2,743	3,022	3,255	3,440	3,528	3,505
DtD Business	557	613	639	636	564	551	536	517	503	488	473
% Growth		10.1%	4.2%	-0.3%	-11.4%	-2.2%	-2.7%	-3.6%	-2.6%	-3.0%	-3.1%
ARITAUM (Roadshop)	271	265	310	338	376	418	452	475	485	481	462
% Growth		-2%	17%	9%	11%	11%	8%	5%	2%	-1%	-4%
Discount store	157	166	164	179	167	168	169	166	166	166	165
% Growth		6%	-1%	9%	-7%	0%	1%	-2%	0%	0%	-1%
Department store	300	282	292	298	292	296	297	297	299	300	301
% Growth		-6%	4%	2%	-2%	1%	0%	0%	1%	0%	0%
Duty free shop (in airports)	0	132	182	259	355	887	1,064	1,222	1,343	1,409	1,408
% Growth			38%	42%	37%	150%	20%	15%	10%	5%	0%
Internet & Homeshopping	86	116	182	219	292	371	453	529	593	634	646
% Growth		35%	57%	20%	34%	27%	22%	17%	12%	7%	2%
FtF sales	29	33	36	40	21	32	31	28	30	30	29
% Growth		16%	10%	9%	-48%						
Etc.	14	17	18	20	21	20	20	20	20	20	20
% Growth		16%	10%	9%	5%						

Source : Company, YONSEI university student research team

2) Local entities' sales: AP standout in China.

2-A) Local entities in China: Double-double, Laneige and Innisfree, Quality and quantity.

Our expectation of AP China will go up to KRW 650B with bounced back 10% of OPM. The three drivers of OPM is 1) reduction of low quality specialty store of Mamonde. 2) Expansion of the Laneige to the department store and Sephora 3) Roll out of the Innisfree as roadshop, targeting mid-end cosmetic market.

Historically AP's business performance was not good. In the past 3 years, AP's choice to upraise the business in the China was Mamonde, no other brands. Though Laneige settled down as prestige brand successfully, over-expanded mamonde local shop nibbled AP china's margin, down to 3% in FY13, originally around 9% in FY10. Consequently AP made a plan to abbreviate distribution channels of Mamonde. Last year, targeted low profitable specialty stores of Mamonde were 500. But only 300 specialty stores are actually reduced, So we have a sight of 300 stores in 2014, 300 stores consisted of 200 stores properly reducible amount in 2013 and annual 100 stores closed additionally. Mamonde will change its distribution channel portion, weighting department store with higher margin.

Laneige, launched in 2002, successfully laid it's brand power as high-end brand. Laneige is the only brand of AP, for which can make a competition with other prestige brands of L'Oreal, Estee Lauder, Shiceido and P&G in the same department store. Already more than 100 official channels. Referring past channels distribution of Mamonde, around 500 department stores are profitable. So Laneige keep going on expansion constantly while remaining it's profitability. We expect Laneige to be a cash cow brand in China.

Innisfree, launched in 2012, was above on BEP then, and 10% of OPM already, though in the phase of opening shops. Innisfree's brand identity is eco-like which Chinese people adore. One brand shop of Innisfree attracts the Chinese by accessibility and reasonable price. AP has a plan to open 100 stores in FY14. We expected Long term average growth amount of store is 25 annually, but upside potential of Innisfree is numerous since there were 749 Innisfree shop in Korea, 2013.

2-1) China (KRW B)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	143	191	262	339	476	653	859	1,077	1,285	1,457
Operating profit	12	14	14	10	33	66	103	140	180	219
OPM	8.7%	7.4%	5.4%	3.0%	7.0%	10.0%	12.0%	13.0%	14.0%	15.0%
% growth : sales		34%	38%	29%	40%	37%	31%	25%	19%	13%

Source : Company, YONSEI university student research team

(Number)		FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Department store	Sulwhasoo	0	7	20	28	33	38	43	48	53	58
	Laneige	195	220	290	329	359	389	419	449	479	509
	Mamonde	365	676	885	900	800	750	725	700	700	700
	Innisfree	0	0	2	1	2	2	2	2	3	4
SEPHORA	Laneige	0	114	133	154	164	174	184	194	204	214
Watsons	Mamonde	0	0	70	143	173	203	233	263	293	323
Specialty store	Mamonde	2,089	2,298	2,484	2,168	1,968	1,818	1,768	1,718	1,668	1,618
	Innisfree	0	0		45	145	225	295	355	405	445

Source : Company, YONSEI university student research team

2-B) Other local entities: Declining level of deficit in France and USA, struggling in Japan.

Actually, other local entities are minor portion for AP, compared with AP's China business. Reflecting historical trend of operation, AP France's OPM will bounce back to -5% after channel restructuring, and recover 1% of OPM annually. AP USA have showed us steady volume growth and reducing its shortfall. We forecast AP USA would be able to keep this trend, annual growth rate of 5% and to proceed its recovery of OPM, annually 1%. But Japanese B&C market is the most sophisticated and the most saturated market, we take a pessimistic view on AP Japan with low possibility to reverse its shortfall.

(KRW B)

2-2) France	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	98	100	85	90	92	89	91	91	90	90
Operating profit	3	2	-14	-7	-4	-2	-1	0	1	2
OPM	3.1%	1.8%	-16.3%	-7.2%	-5%	-2%	-1%	0%	1%	2%
% growth : sales		3%	-15%	6%	2%	-3%	1%	0%	-1%	0%
2-3) USA	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	12	16	18	24	25	26	27	29	30	31
Operating profit	-5	-4	-5	-2	-2	-2	-1	-1	-1	0
OPM	-37.5%	-22.8%	-25.0%	-9.8%	-8.3%	-6.8%	-5.3%	-3.8%	-2.3%	-0.8%
% growth : sales		32%	14%	31%	5%	5%	5%	5%	5%	5%
2-4) Japan	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales			47.00	47.60	47.30	47.45	47.38	47.41	47.39	47.40
Operating profit			-3.2	-4.3	-3.8	-4.0	-3.9	-4.0	-3.9	-3.9
OPM			-6.8%	-9.0%	-7.9%	-8.5%	-8.2%	-8.3%	-8.3%	-8.3%
% growth : sales				1%	-1%	0%	0%	0%	0%	0%
2-5) Etc : South-east asia	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	38	47	30	79	100	123	143	161	172	176
Operating profit	-5	-7	-4	-4	-2	0	3	6	10	14
OPM	-12.0%	-15.5%	-12.7%	-4.7%	-2%	0%	2%	4%	6%	8%
% growth : sales		22.9%	-36.4%	163.0%	27.1%	22.1%	17.1%	12.1%	7.1%	2.1%

Source : Company, YONSEI university student research team

3) MC&S : Neither low possibility to growth or de-growth

We forecasts MC&S businesses keep current level of sales volume and profitability. Mass cosmetic market (below MC market) of Korea is matured market. Though LG H&H, Ae-Kyung, P&G and Unilever are involved in this market, AP have dominated MC market more than 10 years, There will be very low possibility to lose AP's competitive advantage also its profitability, since AP is market dominator by the brands like Mise-en-scene, Ryul, Song-yum, Median. Sulloc business seldom like profitable business, and will seldom like profitable in future, too.

3-1) Mass (KRW B)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	264	311	355	381	397	413	427	440	451	460
Operating profit	0	41	45	44	48	50	51	53	54	55
OPM		13%	13%	11%	12%	12%	12%	12%	12%	12%
% growth : sales		18%	14%	7%	4%	4%	4%	3%	3%	2%
3-2) Sulloc (KRW B)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales	30	39	47	56	64	70	75	76	75	71
Operating profit	0	-3	0	-4	-3	-4	-4	-4	-4	-4
OPM		-7%	-1%	-7%	-5%	-5%	-5%	-5%	-5%	-5%
% growth : sales		27%	23%	18%	14%	10%	6%	2%	-2%	-6%

Source : Company, YONSEI university student research team

Forecasting : S&GA

We approached AP's domestic business first because of the heterogeneous of entities abroad. After forecasting the non-consolidated S&GA, we deducted the forecasted S&GA from consolidated S&GA and got S&GA from entities abroad.

A) Non-consolidated S&GA (KRW M)

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
S&GA	1,034,857	1,190,814	1,330,215	1,443,760	1,620,077	1,727,537	1,826,309	1,908,033	1,975,502	2,022,930
Salaries, wages and employee benefits	198,425	215,346	239,163	251,376	257,103	262,960	268,951	275,078	281,345	287,755
Salaries expenses	166,937	179,064	201,011	211,309	215,575	220,487	225,510	230,647	235,902	241,276
Employee benefits	31,488	36,282	38,152	40,067	41,528	42,474	43,441	44,431	45,443	46,479
Depreciation	34,007	34,398	42,309	50,270	52,302	54,078	58,941	63,747	69,362	75,324
Development expenses	56,771	60,211	60,170	62,842	65,007	66,689	69,015	71,204	73,399	75,782
Advertising expenses	231,628	269,393	290,534	280,150	286,136	284,080	286,094	286,080	287,088	287,586
Other S&GA expenses	514,026	611,466	698,039	799,122	959,530	1,059,730	1,143,308	1,211,923	1,264,307	1,296,482
Selling expense	271,215	332,079	399,488	457,619	598,175	677,291	738,481	783,320	810,439	815,739
Sales commissions	233,270	284,110	351,942	405,832	538,883	615,921	667,692	710,978	736,614	741,306
Freight expenses	37,945	47,969	47,546	51,787	59,292	61,370	70,790	72,342	73,825	74,433
General administration expense	242,811	279,387	298,551	341,503	361,355	382,439	404,827	428,603	453,868	480,744
Taxes and dues	16,189	19,838	22,329	27,477	29,675	31,752	33,658	35,340	36,754	37,857
Service fees	158,500	178,951	183,947	196,412	202,304	208,373	214,625	221,063	227,695	234,526
Other administration expenses	68,122	80,598	92,275	117,614	129,376	142,313	156,544	172,199	189,419	208,361

Source : Company, Dataguide, YONSEI university student research team

1) Salaries, wages

In 2015 AP's salaries expenses will be KRW 263B, 4.5% more than FY13. We forecast future expected expenses of salaries and wages with P*Q concept. P is the average annual salary per an employee and Q is the expected total employees. Salaries will be integrated by 3%, the 3Y CAGR of average salary. And total employee will step down annually 1% because of the business abbreviatio of ARITAUM and DtD channel. AP will more weight on the channel of duty-free shop and investing to the additional capacity and developing new product.

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Expense : Salaries, wages	198,425	215,346	239,163	251,376	257,103	262,960	268,951	275,078	281,345	287,755
Number of employee	8,242	8,886	9,448	9,474	9,379	9,285	9,193	9,101	9,010	8,920
Average annual wage	24.1	24.2	25.3	26.5	27.4	28.3	29.3	30.2	31.2	32.3

Source : Company, Dataguide, YONSEI university student research team

2) Depreciation expenses

We forecast in 2015E depreciation expenses KRW 54B, 7.5% more than FY13. Depreciation expenses are driven by capacities in use, so we used beginning balance of PP&E each year. Each year, depreciation expenses is around 3% of beginning balance of PP&E. Escalating depreciation expenses figures that tangible asset in the Pro-forma B/S will be in up-trend again, since AP's capacity is fully operated now.

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Depreciation	34,007	34,398	42,309	50,270	52,302	54,078	58,941	63,747	69,362	75,324
PP&E to total assets	893,490	1,556,967	1,603,855	1,702,289	1,771,088	1,831,249	1,995,904	2,158,652	2,348,815	2,550,701
% Growth	74%	3%	6%	4%	3%	9%	8%	9%	9%	7%
% Expensed	4%	2%	3%	3%	3%	3%	3%	3%	3%	3%

Source : Company, Dataguide, YONSEI university student research team

3) Development expenses

We forecast Development expenses of AP maintaining constant level of growth. We used in Development account forecasting the 3Y historical growth rate of 3%. Current AP's sales volume is in sharp upstream now, so the ratio of Development expense to sales will converge to 1.8%, from 2.5% of FY13 the past financial year.

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Development expenses	56,771	60,211	60,170	62,842	65,007	66,689	69,015	71,204	73,399	75,782
Sales	1,917,827	2,174,211	2,391,492	2,525,256	3,203,645	3,505,340	3,757,215	3,956,270	4,053,806	4,035,211
Development expenses to Sales	3.0%	2.8%	2.5%	2.5%	2.0%	1.9%	1.8%	1.8%	1.8%	1.9%

Source : Company, Dataguide, YONSEI university student research team

4) Advertising expenses

AP had reduced Advertising expenses had the most reduction. The important intuition is that marketing targets the domestic buyer, so AP's motivation to plan a costly marketing is relieved. It is the difference with the AP's past business which is dependent on the domestic consumer's purchasing power. Within the added importance of business abroad, advertising expenses in domestic business will keep the current level around KRW 28.5B and diminish to 8.1% advertising expenses to sales ratio.

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Advertising expenses	231,628	269,393	290,534	280,150	286,136	284,080	286,094	286,080	287,088	287,586
Sales	1,917,827	2,174,211	2,391,492	2,525,256	3,203,645	3,505,340	3,757,215	3,956,270	4,053,806	4,035,211
Advertising expense to Sales	12.1%	12.4%	12.1%	11.1%	8.9%	8.1%	7.6%	7.2%	7.1%	7.1%
% Growth		16.3%	7.8%	-3.6%	2.1%	-0.7%	0.7%	0.0%	0.4%	0.2%

Source : Company, Dataguide, YONSEI university student research team

5) Selling expenses

Selling expenses will escalate to KRW 578B till 2015. Unlike the advertising expenses, selling expenses will be as the most crucial part of SG&A since transporting of the sales channel from DtD to Duty-free channel. DtD Sales to total domestic sales ratio of 2015 will step down to 17.7%, 9.3% less than FY13. Selling expenses to SG&A ratio will ascend accordingly to 35.7%, 7.6% more than FY13. The effect of dominating sales volume growth in which AP pays channel commission will appear to a restricted increment of selling expenses to sales ratio, 1.5% smaller than 3% of past 3 years.

Freight expenses will descend to around 1.8% to sales and maintain this level. According to the average growth rate with past 3 years, we forecasted the freight expenses.

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Selling expenses	271,215	332,079	399,488	457,619	598,175	677,291	738,481	783,320	810,439	815,739
Selling commissions	233,270	284,110	351,942	405,832	538,883	615,921	667,692	710,978	736,614	741,306
Freight expenses	37,945	47,969	47,546	51,787	59,292	61,370	70,790	72,342	73,825	74,433
Sales	1,917,827	2,174,211	2,391,492	2,525,256	3,203,645	3,505,340	3,757,215	3,956,270	4,053,806	4,035,211
Selling commissions to Sales	22.5%	13.1%	14.7%	16.1%	16.8%	17.6%	17.8%	18.0%	18.2%	18.4%
Freight expenses to Sales	2.0%	2.2%	2.0%	2.1%	1.9%	1.8%	1.9%	1.8%	1.8%	1.8%
DtD sales to domestic skincare sales	37.8%	35.0%	32.0%	27.0%	20.1%	17.7%	15.9%	14.6%	13.8%	13.5%
Selling commissions to S&GA	22.5%	23.9%	26.5%	28.1%	33.3%	35.7%	36.6%	37.3%	37.3%	36.6%

Source : Company, Dataguide, YONSEI university student research team

6) General administration expenses.

Overall general administration expenses will step down according to reduced growth of road shop. The importance of road shop channel is minor, as appeared by diminishing portion to the sales of domestic skincare. AP will take the conservative business plan to the new road shop.

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
General administration expense	242,811	279,387	298,551	341,503	361,355	382,439	404,827	428,603	453,868	480,744
Taxes and dues	16,189	19,838	22,329	27,477	29,675	31,752	33,658	35,340	36,754	37,857
Service fees	158,500	178,951	183,947	196,412	202,304	208,373	214,625	221,063	227,695	234,526
Other administration expenses	68,122	80,598	92,275	117,614	129,376	142,313	156,544	172,199	189,419	208,361
Growth rates :										
Taxes and dues		23%	13%	23%	8%	7.00%	6.00%	5.00%	4.00%	3.00%
Service fees		13%	3%	7%	3%	3%	3%	3%	3%	3%
Other administration expenses		18%	14%	27%	10%	10%	10%	10%	10%	10%

Source : Company, Dataguide, YONSEI university student research team

[Forecasting : CoGS]

2014 is the year of milestone to AP, AP's cost structure approaches to the standard rate of CoGS and S&GA of global top-tiers like L'Oreal and Estee Lauder. We forecast that consolidated AP's CoGS to Sales rate will converge to 28% and non-consolidated CoGS to Sales rate will converge to 30%. The gap of those two rates is the portion of outbound sales, since luxury lineups consumed in China aren't produced by AP China.

The gap between consolidated CoGS and non-consolidated CoGS is CoGS of AP's local entities abroad. By using CoGS and operating profit, S&GA of AP's local entities is calculated out, and this amount is add backed to S&GA of non-consolidated S&GA.

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
S&GA	1,207,688	1,407,249	1,636,920	1,818,769	2,241,274	2,456,383	2,679,862	2,896,430	3,080,114	3,209,670
Salaries, wages and employee benefits	247,457	278,189	341,176	374,729	461,436	502,703	549,714	600,196	644,690	678,114
Salaries expenses	212,229	236,814	297,058	325,851	405,313	443,104	486,218	532,542	573,293	603,752
Employee benefits	35,228	41,375	44,118	48,878	56,123	59,598	63,496	67,654	71,397	74,362
Depreciation	42,033	42,363	53,599	67,640	81,075	87,838	98,476	109,528	120,527	130,293
Development expenses	57,112	61,529	62,231	63,572	66,216	68,107	70,676	73,128	75,549	78,093
Advertising expenses	302,441	354,577	399,026	388,544	465,690	494,749	532,809	571,771	606,369	630,606
Other S&GA	558,645	670,591	780,888	924,284	1,166,858	1,302,987	1,428,187	1,541,807	1,632,979	1,692,564
Selling expenses	284,381	350,944	426,299	499,630	667,765	758,941	834,102	894,047	934,185	948,685
Selling commissions	241,956	295,607	369,109	434,149	585,789	670,956	732,144	785,612	820,024	830,917
Freight expenses	42,425	55,337	57,190	65,481	81,976	87,985	101,958	108,435	114,162	117,769
General administration expenses	274,264	319,647	354,589	424,654	499,093	544,046	594,084	647,759	698,793	743,879
Taxes and dues	18,807	24,064	27,098	33,101	38,991	42,683	46,458	50,163	53,320	55,654
Selling fees	169,612	192,895	201,277	218,201	238,398	250,721	264,218	278,492	291,876	303,479
Other General administration expenses	85,845	102,688	126,214	173,352	221,704	250,641	283,408	319,104	353,597	384,745

(KRW M)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
a-1) CoGS (Consolidated)	700,160	774,623	847,204	911,807	1,090,546	1,228,034	1,359,775	1,476,749	1,561,941	1,603,880
a-2) CoGS (Non-consolidated)	667,365	732,731	805,320	848,339	993,130	1,076,139	1,145,951	1,202,706	1,228,303	1,218,634
b-1) CoGS to Sales (Consolidated)	30.8%	30.3%	29.7%	29.4%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
b-2) CoGS to Sales (Non-consolidated)	34.8%	33.7%	33.7%	33.6%	31.0%	30.7%	30.5%	30.4%	30.3%	30.2%
c-1) CoGS of all local entities	32,795	41,892	41,884	63,468	97,416	151,895	213,824	274,043	333,638	385,246
c-2) (-) Operating profit of all local entities	6,300	5,100	-11,200	-6,500	21,366	57,869	99,838	141,606	186,913	230,713
c-3) S&GA of all local entities abroad	251,705	307,208	412,116	522,232	621,197	728,846	853,553	988,397	1,104,612	1,186,739

Source : Company, Dataguide, YONSEI university student research team