COMPANY UPDATE

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Hotel Shilla (008770)

DFS-boosting strategy key to earnings

- Hotel Shilla reported a 3Q consolidated operating profit of KRW11.4b, missing consensus by 37%.
- The miss owed to the duty-free business (DFS) suffering higher rental fee burden at airport concessions due to a hike in outbound traffic.
- Its DFS earnings should visibly improve from 2Q26 led by its return of business license for IIA duty-free concession (DF1).

Industrial Team

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AT A GLANCE

BUY

Target price	KRW63,000	29.5%
Current price	KRW48,650	
Market cap	KRW1.9t/USD1.3b	
Shares (float)	39,248,121 (77.2%)	
52-week high/low	KRW56,400/KRW35,900	
Avg daily trading value (60-day)	KRW12.6b/ USD8.7m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Hotel Shilla (%)	-2.3	10.8	18.5
Vs Kospi (%pts)	-15.9	-31.2	-25.6

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	63,000	70,000	-10.0%
2025E EPS	-3,847	-2,956	n/a
2026E EPS	2,514	2,802	-10.3%

SAMSUNG vs THE STREET

No of estimates	13
Target price	63,583
Recommendation	3.8

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

WHAT'S THE STORY?

3Q results miss consensus: Hotel Shilla reported 3Q consolidated sales of KRW1.03t (up 0.9% y-y) and a y-y turn to an operating profit of KRW11.4b, the latter missing FnGuide consensus by 37%. The miss—despite downtown DFSs enjoying a fall in a COGS-to-sales ratio thanks to a hike in the FIT portion and favorable forex—owed to airport DFSs suffering a higher rental fee burden amid lukewarm sales growth and a hike in outbound traffic. Meanwhile, the hotel business reported another solid earnings led by favorable business conditions. The business should stay strong for a while thanks to Chinese group tours being permitted visa-free entry to Korea from Sep 29.

(Continued on the next page)

Hotel Shilla 3Q25 review

(KRWb)	3Q25	2Q25	Chg (% q-q)	3Q24	Chg (% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	1,025.7	1,025.4	0.0	1,016.2	0.9	1,071.8	-4.3	1,070.8	-4.2
Operating profit	11.4	8.7	31.6	-17.0	nm	18.1	-36.8	26.5	-56.9
Pre-tax profit	-187.2	2.2	nm	-26.7	nm	-53.2	nm	-172.0	nm
Net profit	-149.2	-0.9	nm	-23.3	nm	-20.4	nm	-124.7	nm
Margins (%)									
Operating profit	1.1	0.8		-1.7		1.7		2.5	
Pre-tax profit	-18.3	0.2		-2.6		-5.0		-16.1	
Net profit	-14.5	-0.1		-2.3		-1.9		-11.6	

Source: Company data, Samsung Securities estimates

Valuation

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit	EPS (KRW)	EPS growth (% y-y)	P/E (x)	Net debt	EV/EBITDA (x)	P/B (x)	ROE (%)
2023	3,568	91	107	86	2,226	nm	30.4	1,213	17.2	4.1	15.2
2024	3,948	-5	-47	-62	-1,506	nm	n/a	1,297	21.3	1.1	-6.2
2025E	4,075	32	-183	-152	-3,847	nm	n/a	1,457	20.5	1.6	-12.5
2026E	4,032	171	136	99	2,514	nm	19.4	1,334	10.7	1.6	8.3
2027E	4,289	215	180	130	3,321	32.1	14.6	1,184	8.9	1.5	8.3

Source: Company data, Samsung Securities estimates

Returns business license for IIA duty-free concession; DFS-boosting strategy to be key: To address the operating loss at the DFS operation, the company decided in September to return its business license for the Incheon International Airport (IIA) duty-free store DF1 zone—a move that should bring about a visible DFS earnings improvement from 2Q26, in our view. Management also decided to halt operation at its Macao airport concession (at BEP) from Nov 6. Following those moves, attention now moves to which strategy the company will take to boost its DFS operation. As it should take time for its DFS competence to improve, we cut our 2026 operating-profit forecast by 9% and revise down our target price for the stock by 10% to KRW63,000.

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**3,568**	**3,948**	**4,075**	**4,032**	**4,289**
Cost of goods sold	2,150	2,260	2,212	1,939	2,057
Gross profit	**1,419**	**1,687**	**1,863**	**2,093**	**2,232**
Gross margin (%)	39.8	42.7	45.7	51.9	52.0
SG&A expenses	1,327	1,692	1,831	1,922	2,017
Operating profit	**91**	**-5**	**32**	**171**	**215**
Operating margin (%)	2.6	-0.1	0.8	4.2	5.0
Non-operating gains (losses)	**16**	**-42**	**-215**	**-35**	**-35**
Financial profit	42	27	24	19	18
Financial costs	52	62	57	54	53
Equity-method gains (losses)	0	0	0	0	0
Other	25	-7	-182	0	0
Pre-tax profit	**107**	**-47**	**-183**	**136**	**180**
Taxes	21	14	-31	37	49
Effective tax rate (%)	19.9	-30.8	17.1	27.5	27.5
Profit from continuing operations	86	-62	-152	99	130
Profit from discontinued operations	0	0	0	0	0
Net profit	**86**	**-62**	**-152**	**99**	**130**
Net margin (%)	2.4	-1.6	-3.7	2.4	3.0
Net profit (controlling interests)	86	-62	-152	99	130
Net profit (non-controlling interests)	-0	0	0	0	0
EBITDA	219	127	164	309	359
EBITDA margin (%)	6.1	3.2	4.0	7.7	8.4
EPS (parent-based) (KRW)	2,149	-1,538	-3,793	2,466	3,259
EPS (consolidated) (KRW)	2,149	-1,538	-3,793	2,466	3,259
Adjusted EPS (KRW)*	2,226	-1,506	-3,847	2,514	3,321

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**1,380**	**1,411**	**1,282**	**1,391**	**1,575**
Cash & equivalents	412	370	210	333	483
Accounts receivable	85	86	95	94	101
Inventories	630	623	638	627	638
Other current assets	254	332	340	337	353
Fixed assets	**1,626**	**2,403**	**2,425**	**2,447**	**2,469**
Investment assets	330	299	859	874	890
Tangible assets	573	1,536	1,542	1,549	1,555
Intangible assets	29	23	23	23	23
Other long-term assets	694	545	1	1	1
Total assets	**3,007**	**3,814**	**3,707**	**3,838**	**4,045**
Current liabilities	**1,188**	**1,150**	**1,183**	**1,193**	**1,251**
Accounts payable	272	206	208	210	228
Short-term debt	150	11	11	11	11
Other current liabilities	767	933	964	971	1,012
Long-term liabilities	**1,210**	**1,380**	**1,385**	**1,407**	**1,424**
Bonds & long-term debt	749	854	1,302	1,302	1,302
Other long-term liabilities	461	525	84	105	122
Total liabilities	**2,398**	**2,530**	**2,574**	**2,607**	**2,683**
Owners of parent equity	**608**	**1,284**	**1,133**	**1,231**	**1,362**
Capital stock	200	200	200	200	200
Capital surplus	197	206	206	206	206
Retained earnings	304	223	72	170	301
Other	-92	655	655	655	655
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**608**	**1,284**	**1,133**	**1,231**	**1,362**
Net debt	1,152	1,241	1,463	1,341	1,192

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**243**	**69**	**29**	**311**	**338**
Net profit	86	-62	-152	99	130
Non-cash profit and expenses	127	218	194	201	209
Depreciation	115	122	123	128	134
Amortization	13	10	9	9	10
Other	-1	86	62	63	65
Changes in A/L from operating activities	12	-98	-13	11	-1
Cash flow from investments	**-231**	**-95**	**-81**	**-80**	**-79**
Change in tangible assets	-53	-74	-70	-68	-68
Change in financial assets	-65	7	-12	-12	-12
Other	-113	-28	0	0	0
Cash flow from financing	**-138**	**-30**	**-124**	**-124**	**-124**
Change in debt	-18	58	0	0	0
Change in equity	0	10	0	0	0
Dividends	-8	-8	0	0	0
Other	-112	-90	-124	-124	-124
Change in cash	-122	-41	-161	123	151
Cash at beginning of year	534	412	370	210	333
Cash at end of year	412	370	210	333	483
Gross cash flow	**213**	**156**	**43**	**300**	**339**
Free cash flow	**188**	**-5**	**-41**	**242**	**270**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	-27.5	10.6	3.2	-1.1	6.4
Operating profit	16.4	nm	nm	431.8	25.4
Net profit	nm	nm	nm	nm	32.1
Adjusted EPS**	nm	nm	nm	nm	32.1
Per-share data (KRW)					
EPS (parent-based)	2,149	-1,538	-3,793	2,466	3,259
EPS (consolidated)	2,149	-1,538	-3,793	2,466	3,259
Adjusted EPS**	2,226	-1,506	-3,847	2,514	3,321
BVPS	14,353	23,660	30,791	30,115	33,032
DPS (common)	200	0	0	0	0
Valuations (x)					
P/E***	30.4	n/a	n/a	19.4	14.6
P/B***	4.1	1.1	1.6	1.6	1.5
EV/EBITDA	17.2	21.3	20.5	10.7	8.9
Ratios (%)					
ROE	15.2	-6.2	-12.5	8.3	8.3
ROA	2.9	-1.8	-4.0	2.6	3.3
ROIC	5.5	-0.4	1.2	6.3	7.9
Payout ratio	232.6	0.0	0.0	0.0	0.0
Dividend yield (common)	0.3	0.0	0.0	0.0	0.0
Net debt to equity	189.4	96.7	129.2	108.9	87.5
Interest coverage (x)	1.8	-0.1	0.6	3.1	4.1

Note: *Excluding one-off items
**Fully diluted, excluding one-off items
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

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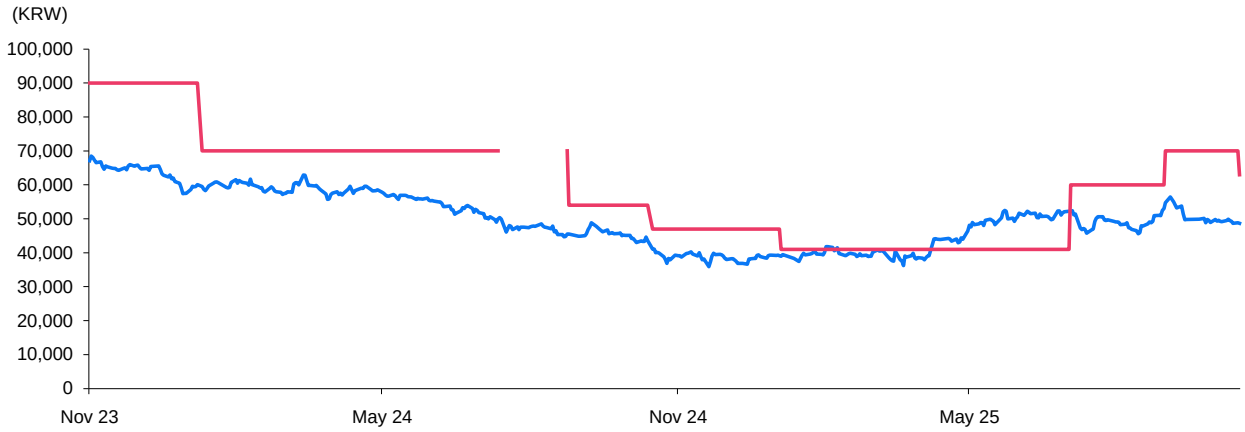
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2023/7/10	2024/1/29	9/13	11/4	2025/1/23	7/22	9/19	11/5
Recommendation	BUY	BUY	BUY	HOLD	HOLD	BUY	BUY	BUY
Target price (KRW)	90000	70000	54000	47000	41000	60000	70000	63000
Gap* (average)	-19.46	-18.64	-16.09	-17.46	7.20	-18.57	-27.65	
(max or min)**	1.11	-10.14	-9.54	-12.66	28.05	-11.67	-19.43	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
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* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2025.09.30

BUY(83.5%)·HOLD(16.5%)·SELL(0%)

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