COMPANY UPDATE

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Industrial Team

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Lotte Shopping (023530)

Results disappoint, but valuation appeal returns

- Lotte Shopping's consolidated 2Q operating profit came in at KRW89.9b, missing consensus by 21%.
- Department store same-store sales grew 15% y-y, driving strong revenue performance. However, results were weighed down by one-off costs of KRW22.8b, including voluntary retirement expenses in the discount store/supermarket segment and inventory write-downs at Lotte Cultureworks.
- The discount store business should see y-y sales recovery in 3Q driven by a low base effect and reduced competition. Concerns over a moderation in the wealth effect for department stores are already priced in, with no significant valuation overhang remaining. We maintain our BUY rating.

WHAT'S THE STORY?

2Q results meet consensus excluding one-off costs: Lotte Shopping reported consolidated 2Q sales and operating profit of KRW3.5t (up 4% y-y) and KRW89.9b (up 121% y-y), respectively, the latter missing consensus by 21%. Department store same-store sales grew 15% y-y, benefiting from wealth effect and increased inbound tourism (foreign sales up 108% y-y). But one-off costs of KRW22.8b—primarily from voluntary retirement expenses in the discount store/supermarket segment and inventory write-downs at Lotte Cultureworks—weighed on results (Excluding these one-off items, operating profit would have aligned with consensus). Given that Lotte Cultureworks now has no remaining drama inventory, further one-off expenses appear limited.

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AT A GLANCE

BUY

Target price	KRW155,000	55.5%
Current price	**KRW99,700**	
Market cap	KRW2.8t/USD2.0b	
Shares (float)	28,288,755 (39.8%)	
52-week high/low	KRW203,500/KRW64,100	
Avg daily trading value (60-day)	KRW27.9b/ USD19.7m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Lotte Shopping (%)	-42.9	2.8	36.4
Vs Kospi (%pts)	-30.1	-16.4	-29.7

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	155,000	230,000	-32.6%
2026E EPS	12,040	14,444	-16.6%
2027E EPS	14,759	16,325	-9.6%

SAMSUNG vs THE STREET

No of estimates	15
Target price	213,333
Recommendation	4.0

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

SUMMARY 2Q RESULTS

(KRWb)	2Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	3,485.0	4.0	-2.7	0.9	-2.1
Operating profit	89.9	121.2	-64.4	-17.6	-20.7
Pre-tax profit	19.4	nm	-89.2	-69.3	-63.3
Net profit	14.6	nm	-89.9	-68.2	-58.1
Margins (%)					
Operating profit	2.6				
Pre-tax profit	0.6				
Net profit	0.4				

Source: Company data, FnGuide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuations (x)			
P/E	39.8	8.3	6.8
P/B	0.1	0.2	0.2
EV/EBITDA	9.4	7.8	7.6
Div yield (%)	5.5	5.0	5.5
EPS growth (% y-y)	nm	560.6	22.6
ROE (%)	0.9	2.6	2.5
Per-share data (KRW)			
EPS	1,822	12,040	14,759
BVPS	596,547	600,999	611,017
DPS	4,000	5,000	5,500

Samsung Securities

Net profit missed consensus due to equity method losses linked to the Vietnam integrated development project, Lotte Eco Smart City Thu Thiem—ie, KRW31.9b in one-off losses attributable to project delays. But noteworthy is that equity-method income from FRL Korea rose KRW19.5b y-y, reflecting a solid operating environment.

Maintaining BUY: While recent market corrections raise concerns about a moderation in the wealth effect, department store sales are unlikely to sharply decelerate given Korea's resilient export fundamentals (eg, same-store sales growth of 11% in July). For the discount store business, while depreciation expenses should rise from August with the full-scale operation of the Ocado logistics center, 3Q26 should see strong sales recovery y-y driven by a low base and reduced competition in the discount store segment (eg, same-store sales growth of 17.5% in July). Although we cut our target price by 33% to KRW155,000(SOTP-based) to reflect peer valuation compression and slight downward revisions to earnings estimates, we maintain BUY for attractive valuation—eg, the stock now trades at a P/E of just 8.3x following the recent sharp price decline—driven by concerns over wealth effect moderation and major shareholder share sales.

Lotte Shopping: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26P	3Q26E	4Q26E	2025	2026E	2027E
Net sales	**3,456.8**	**3,349.7**	**3,410.1**	**3,521.8**	**3,581.6**	**3,485.0**	**3,603.8**	**3,567.4**	**13,738.4**	**14,237.8**	**14,741.6**
Department store	806.3	815.8	764.8	952.5	872.3	891.2	799.5	958.9	3,339.4	3,521.9	3,569.4
Discount store	1,487.3	1,295.4	1,333.8	1,354.8	1,525.6	1,329.5	1,502.5	1,426.3	5,471.3	5,783.8	6,143.6
SSM	305.2	308.6	313.6	298.6	305.8	313.0	312.3	292.2	1,226.0	1,223.4	1,279.8
E-commerce	28.3	26.6	22.6	31.5	27.2	26.2	23.3	33.1	109.0	109.8	115.2
Home shopping	227.6	231.0	211.3	232.4	232.4	238.6	213.6	228.0	902.3	912.6	904.5
Lotte Cultureworks	86.3	91.9	127.8	128.4	124.6	106.1	130.4	131.0	434.4	492.0	475.4
Lotte Himart	529.0	594.2	652.5	524.4	496.9	591.1	632.9	508.7	2,300.1	2,229.6	2,296.5
Other	(13.2)	(13.8)	(16.3)	(0.8)	(3.2)	(10.7)	(10.7)	(10.7)	(44.1)	(35.3)	(42.8)
Operating profit	**148.2**	**40.6**	**130.5**	**227.7**	**252.9**	**89.9**	**176.5**	**237.4**	**547.0**	**756.7**	**795.8**
Department store	130.0	65.0	83.2	226.0	191.2	119.7	109.3	238.4	504.2	658.6	653.4
Discount store	28.1	(39.0)	11.5	(7.7)	33.8	(37.8)	20.6	(10.4)	(7.1)	6.2	17.2
SSM	3.2	2.7	4.9	(2.8)	2.2	(1.8)	8.0	(3.3)	8.0	5.1	11.2
E-commerce	(8.5)	(8.4)	(9.6)	(2.8)	(5.8)	(7.4)	(6.4)	(5.6)	(29.3)	(25.2)	(18.2)
Home shopping	12.1	12.2	10.3	10.4	26.4	19.9	14.7	14.8	45.0	75.7	68.2
Lotte Cultureworks	(10.4)	(6.2)	8.2	(2.2)	7.9	(13.7)	3.1	3.0	(10.6)	0.3	10.9
Lotte Himart	(11.1)	10.5	19.0	(8.7)	(14.7)	1.0	17.2	(9.5)	9.7	(6.0)	13.1
Other	4.8	3.8	3.0	15.5	11.9	10.0	10.0	10.0	27.1	41.9	40.0
Pre-tax profit	44.6	(24.1)	(14.8)	77.8	180.1	19.4	107.2	203.5	83.4	510.2	603.5
Net profit	18.1	(10.3)	(48.7)	114.5	143.9	14.6	77.7	147.5	73.6	383.7	437.5
Net profit (controlling interests)	16.2	(20.4)	(56.6)	112.4	128.2	(2.9)	72.7	142.5	51.6	340.6	417.5
Change (% y-y)											
Net sales	**(1.6)**	**(2.3)**	**(4.4)**	**1.3**	**3.6**	**4.0**	**5.7**	**1.3**	**(1.8)**	**3.6**	**3.5**
Department store	(1.1)	(2.4)	1.3	4.4	8.2	9.2	4.5	0.7	0.6	5.5	1.3
Discount store	0.3	(1.8)	(7.5)	1.7	2.6	2.6	12.6	5.3	(1.9)	5.7	6.2
SSM	(7.1)	(6.6)	(6.2)	(1.3)	0.2	1.4	(0.4)	(2.1)	(5.4)	(0.2)	4.6
E-commerce	(5.0)	(4.3)	(16.0)	(10.8)	(3.9)	(1.5)	3.0	5.0	(9.0)	0.7	5.0
Home shopping	0.0	(0.6)	1.5	(9.6)	2.1	3.3	1.1	(1.9)	(2.4)	1.1	(0.9)
Lotte Cultureworks	(25.0)	(19.5)	(2.1)	39.7	44.4	15.5	2.0	2.0	(3.8)	13.3	(3.4)
Lotte Himart	0.7	0.8	(4.9)	(5.8)	(6.1)	(0.5)	(3.0)	(3.0)	(2.4)	(3.1)	3.0
Others	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating profit	**29.0**	**(27.6)**	**(15.8)**	**54.7**	**70.6**	**121.4**	**35.2**	**4.3**	**15.6**	**38.3**	**5.2**
Margins (%)											
Operating margin	**4.3**	**1.2**	**3.8**	**6.5**	**7.1**	**2.6**	**4.9**	**6.7**	**4.0**	**5.3**	**5.4**
Department store	16.1	8.0	10.9	23.7	21.9	13.4	13.7	24.9	15.1	18.7	18.3
Discount store	1.9	(3.0)	0.9	(0.6)	2.2	(2.8)	1.4	(0.7)	(0.1)	0.1	0.3
SSM	1.0	0.9	1.6	(0.9)	0.7	(0.6)	2.6	(1.1)	0.7	0.4	0.9
E-commerce	(30.0)	(31.6)	(42.5)	(8.9)	(21.3)	(28.2)	(27.5)	(16.9)	(26.9)	(22.9)	(15.8)
Home shopping	5.3	5.3	4.9	4.5	11.4	8.3	6.9	6.5	5.0	8.3	7.5
Lotte Cultureworks	(12.1)	(6.7)	6.4	(1.7)	6.3	(12.9)	2.4	2.3	(2.4)	0.1	2.3
Lotte Himart	(2.1)	1.8	2.9	(1.7)	(3.0)	0.2	2.7	(1.9)	0.4	(0.3)	0.6
Pre-tax margin	1.3	(0.7)	(0.4)	2.2	5.0	0.6	3.0	5.7	0.6	3.6	4.1
Net margin	**0.5**	**(0.3)**	**(1.4)**	**3.3**	**4.0**	**0.4**	**2.2**	**4.1**	**0.5**	**2.7**	**3.0**
Net margin (controlling interests)	0.5	(0.6)	(1.7)	3.2	3.6	(0.1)	2.0	4.0	0.4	2.4	2.8

Source: Company data, Samsung Securities estimates

Lotte Shopping: Sum-of-the-parts valuation

(KRWb)	Calculation	
Consolidated operating value	**(A)**	**12,842**
1) Offline retail business		12,508
- 3Q26-2Q27E EBITDA		1,856
- Target EV/EBITDA* (x)		6.7
2) E-commerce		334
- 2026E GMV		1,724
- Target P/GMV** (x)		0.2
Value of stakes in associates	**(B)**	**2,265.5**
- 3Q26-2Q27 equity-method gains		208.5
- Target P/E*** (x)		10.9
Value of investment assets******	**(C)**	**634**
Net debt	(D)	11,326
Enterprise value	**(E=A+B+C-D)**	**4,415**
Outstanding shares	(F)	28,288,755
Share price (KRW)	**(=E/F)**	**155,000**

Note: *Domestic retail peer average;
**60% discount to the global e-commerce peer average, reflecting GMV scale and current loss-making status;
***35% discount to domestic and global peer average, reflecting revenue scale;
****50% discount to market value for listed entities and 30% discount to book value for unlisted entities
Source: Bloomberg, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**13,987**	**13,738**	**14,238**	**14,742**	**15,267**
Cost of goods sold	7,251	7,075	7,362	7,664	7,968
Gross profit	**6,735**	**6,663**	**6,875**	**7,078**	**7,299**
Gross margin (%)	48.2	48.5	48.3	48.0	47.8
SG&A expenses	6,262	6,116	6,119	6,282	6,451
Operating profit	**473**	**547**	**757**	**796**	**848**
Operating margin (%)	3.4	4.0	5.3	5.4	5.6
Non-operating gains (losses)	**-1,494**	**-464**	**-246**	**-192**	**-170**
Financial profit	384	240	214	133	129
Financial costs	933	689	637	534	507
Equity-method gains (losses)	143	164	192	209	209
Other	-1,088	-179	-16	0	0
Pre-tax profit	**-1,021**	**83**	**510**	**603**	**678**
Taxes	-27	10	127	166	186
Effective tax rate (%)	2.7	11.9	24.8	27.5	27.5
Profit from continuing operations	-994	74	384	438	492
Profit from discontinued operations	0	0	0	0	0
Net profit	**-994**	**74**	**384**	**438**	**492**
Net margin (%)	-7.1	0.5	2.7	3.0	3.2
Net profit (controlling interests)	-968	52	384	438	492
Net profit (non-controlling interests)	-26	22	0	0	0
EBITDA	1,589	1,603	1,849	1,907	1,997
EBITDA margin (%)	11.4	11.7	13.0	12.9	13.1
EPS (parent-based) (KRW)	-34,219	1,822	13,564	15,466	17,375
EPS (consolidated) (KRW)	-35,140	2,600	13,564	15,466	17,375
Adjusted EPS (KRW)*	-35,009	1,822	12,040	14,759	16,668

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**5,517**	**5,195**	**5,457**	**5,653**	**5,970**
Cash & equivalents	1,555	572	663	652	769
Accounts receivable	572	441	512	589	660
Inventories	1,540	1,458	1,527	1,621	1,711
Other current assets	1,849	2,725	2,755	2,790	2,830
Fixed assets	**33,486**	**32,715**	**32,837**	**32,963**	**33,090**
Investment assets	3,129	3,068	7,504	7,581	7,662
Tangible assets	24,306	24,063	24,111	24,160	24,206
Intangible assets	752	788	788	788	788
Other long-term assets	5,299	4,795	434	434	434
Total assets	**39,003**	**37,910**	**38,294**	**38,616**	**39,060**
Current liabilities	**9,836**	**9,990**	**10,227**	**10,440**	**10,672**
Accounts payable	602	596	664	740	824
Short-term debt	2,318	1,409	1,409	1,409	1,409
Other current liabilities	6,917	7,985	8,153	8,292	8,439
Long-term liabilities	**12,133**	**11,054**	**10,923**	**10,734**	**10,610**
Bonds & long-term debt	6,007	5,251	8,489	8,489	8,489
Other long-term liabilities	6,127	5,803	2,434	2,245	2,121
Total liabilities	**21,969**	**21,044**	**21,157**	**21,183**	**21,291**
Owners of parent equity	**15,504**	**15,185**	**15,456**	**15,752**	**16,088**
Capital stock	141	141	141	141	141
Capital surplus	3,574	3,574	3,574	3,574	3,574
Retained earnings	7,498	7,441	7,711	8,007	8,343
Other	4,291	4,029	4,029	4,029	4,029
Non-controlling interests' equity	**1,530**	**1,681**	**1,681**	**1,681**	**1,681**
Total equity	**17,034**	**16,866**	**17,137**	**17,433**	**17,769**
Net debt	11,808	11,375	11,333	11,346	11,230

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**1,588**	**1,724**	**2,155**	**2,092**	**2,206**
Net profit	-994	74	384	438	492
Non-cash profit and expenses	2,708	1,621	1,732	1,677	1,716
Depreciation	1,058	980	1,060	1,078	1,116
Amortization	58	76	32	33	34
Other	1,592	565	640	565	566
Changes in A/L from operating activities	-115	46	38	-23	-1
Cash flow from investments	**-1,068**	**-871**	**-762**	**-773**	**-745**
Change in tangible assets	-880	-623	-730	-744	-712
Change in financial assets	-40	-403	6	6	6
Other	-148	156	-38	-35	-40
Cash flow from financing	**-498**	**-1,742**	**-1,207**	**-1,235**	**-1,249**
Change in debt	465	-956	0	0	0
Change in equity	-0	0	0	0	0
Dividends	-143	-195	-113	-141	-156
Other	-819	-591	-1,094	-1,094	-1,094
Change in cash	-35	-983	91	-11	117
Cash at beginning of year	1,590	1,555	572	663	652
Cash at end of year	1,555	572	663	652	769
Gross cash flow	**1,714**	**1,695**	**2,116**	**2,114**	**2,207**
Free cash flow	**682**	**1,072**	**1,396**	**1,319**	**1,466**

Note: *Excluding one-off items;
**Fully diluted, excluding one-off items;
***From companies subject to equity-method valuation
Source: Company data, Samsung Securities estimates

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	-3.9	-1.8	3.6	3.5	3.6
Operating profit	-6.9	15.6	38.3	5.2	6.5
Net profit	nm	nm	421.7	14.0	12.3
Adjusted EPS**	nm	nm	560.6	22.6	12.9
Per-share data (KRW)					
EPS (parent-based)	-34,219	1,822	13,564	15,466	17,375
EPS (consolidated)	-35,140	2,600	13,564	15,466	17,375
Adjusted EPS**	-35,009	1,822	12,040	14,759	16,668
BVPS	486,814	596,547	600,999	611,017	622,191
DPS (common)	3,800	4,000	5,000	5,500	6,000
Valuations (x)					
P/E***	n/a	39.8	8.3	6.8	6.0
P/B***	0.1	0.1	0.2	0.2	0.2
EV/EBITDA	9.4	9.4	7.8	7.6	7.3
Ratios (%)					
ROE	-5.3	0.9	2.6	2.5	2.5
ROA	-2.9	0.2	1.0	1.1	1.3
ROIC	2.1	1.8	2.3	2.4	2.5
Payout ratio	n/a	153.7	36.8	35.5	34.5
Dividend yield (common)	7.0	5.5	5.0	5.5	6.0
Net debt to equity	69.3	67.4	66.1	65.1	63.2
Interest coverage (x)	0.8	0.9	1.3	1.5	1.7

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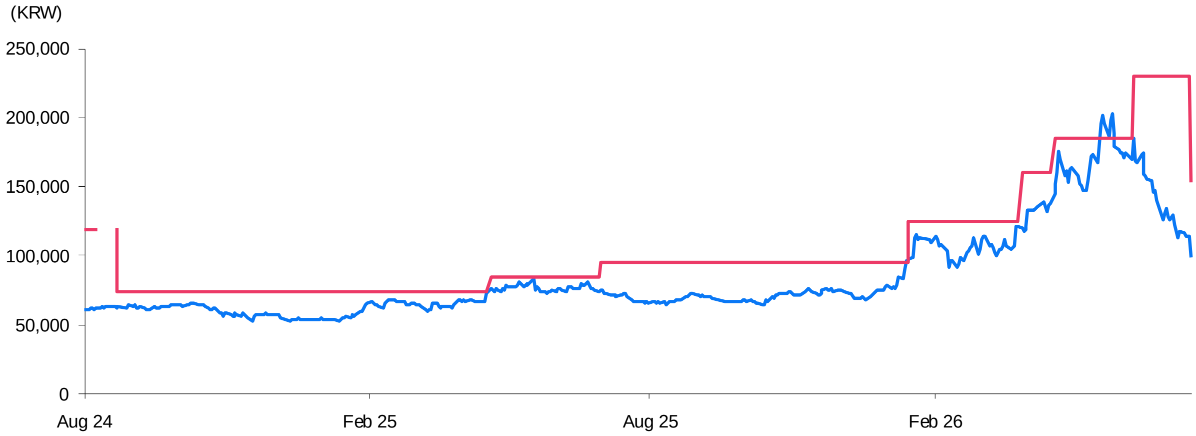
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/2/13	9/13	2025/5/12	7/22	2026/2/6	4/20	5/11	7/1	8/7
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	119000	74000	85000	95000	125000	160000	185000	230000	155000
Gap* (average)	-43.34	-17.69	-10.01	-25.00	-15.01	-18.16	-7.40	-40.01	
(max or min)**	-28.57	-2.57	-2.24	1.58	-2.64	-13.44	10.00	-24.09	

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

Samsung Securities uses the following investment ratings*

Company

BUY	Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

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 2026.06.30

BUY (85.5%)·HOLD (14.5%)·SELL (0%)

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