POSCO (005490.KS)

Expectations for share price rebound strengthening on higher earnings

NH INVESTMENT & SECURITIES

Company Comment | Oct 26, 2021

※Refer to page 3 for ESG indices and events

POSCO's consolidated 3Q21 OP once again broke a new record high thanks to increased profits at the steel business. Although steel prices have weakened due to concerns over China's economy and its interventions in the commodity market, we believe that solid earnings momentum will continue.

China's production cuts led to earnings increase; worries over downcycle like those of the past are excessive

We maintain a Buy rating and TP of W420,000 for POSCO. Our TP equates to a 2022F P/E of 8.2x and P/B of 0.7x (ROE of 8.7%). Considering the profitability shown in 3Q21, we raise our EPS forecasts for 2021 and 2022 by 8.5% and 15.8%, respectively. Although consolidated 2022 OP will likely decrease to W7.3tn (-21.1% y-y), POSCO's higher earnings levels compared to those of the past deserve attention.

Global efforts for carbon neutrality are expected to continue. Changes on the supply side are to be different from those of the post-financial crisis downcycle, during which the global steel industry was weighed upon by China's oversupply. While effects from China's interventions in the commodity market (coal; raw material) are likely in the short term, POSCO should enjoy a share price rebound driven by stronger earnings versus past levels.

3Q21 review: Achieves highest-ever quarterly earnings on robust steel business

POSCO reported consolidated 3Q21 sales of W20.6tn (+44.7% y-y, +12.9% q-q), OP of W3.1tn (+365.7% y-y, +41.8% q-q), and NP (excluding minority interests) of W2.4tn (+417.0% y-y, +46.4% q-q). On a standalone basis, 3Q21 OP came to W2.3tn (+784.6% y-y, +42.9% q-q), a quarterly record high.

Earnings increase was led by the steel business. On a consolidated basis, OP at the steel business rose to W2.9tn (+745.2% y-y, +42.4% q-q). Carbon steel ASP at POSCO headquarters climbed by W196,000/ton q-q, driving the record-high earnings. At the non-steel business, POSCO Energy's OP jumped to W64bn (vs W5.4bn in 2Q21) thanks to electricity price expansion.

3Q21 review (Unit: Wbn, %)

	3Q20	4Q20	1Q21	2Q21	3Q21P					4Q21E
					Actual	y-y	q-q	Estimate	Consen	
Sales	14,261	15,264	16,069	18,293	20,637	44.7	12.9	17,749	18,804	18,548
OP	666.7	863.4	1,552	2,201	3,117	365.7	41.8	2,795	2,596	2,395
OPM	*4.7*	*5.7*	*9.7*	*12*	*15.1*			*15.7*	*13.8*	*12.9*
Pre-tax profit	712.2	518.4	1,560	2,398	3,359	373.2	40.0	2,763	2,640	2,041
NP (excl minority interests)	465	701	1,025	1,664	2,430	417.0	46.4	1,740	1,717	1,360

Note: IFRS consolidated; Source: POSCO, FnGuide, NH I&S Research Center estimates

Buy (maintain)

TP	**W420,000 (maintain)**
CP ('21/10/25)	**W313,000**
Sector	**Steel/metal**
Kospi/Kosdaq	3,020.54 / 994.31
Market cap (common)	US$23,344.31mn
Outstanding shares (common)	87.2mn
52W high ('21/05/11)	W409,500
low ('20/10/30)	W208,000
Average trading value (60D)	US$126.09mn
Dividend yield (2021E)	4.94%
Foreign ownership	54.4%
Major shareholders	
NPS	9.7%
BlackRock Fund Advisors & 13 others	5.2%

Share perf	3M	6M	12M
Absolute (%)	-11.5	-12.0	42.3
Relative (%p)	-4.6	-7.1	11.2

	2020	2021E	2022F	2023F
Sales	57,793	73,547	72,265	69,816
Chg	*-10.2*	*27.3*	*-1.7*	*-3.4*
OP	2,403	9,266	7,310	5,504
Chg	*-37.9*	*285.6*	*-21.1*	*-24.7*
OPM	*4.2*	*12.6*	*10.1*	*7.9*
NP	1,602	6,515	4,477	3,297
EPS	11,262	74,729	51,348	37,821
Chg	*-5.0*	*563.5*	*-31.3*	*-26.3*
P/E	24.2	4.1	5.9	8.0
P/B	0.5	0.5	0.5	0.5
EV/EBITDA	5.1	2.5	2.7	3.0
ROE	3.6	13.9	8.7	6.1
Debt/equity	65.9	66.2	58.1	51.6
Net debt	3,641	1,039	-2,211	-4,736

Unit: Wbn, %, won, x
Note 1: NP excludes minority interests
Note 2: EPS, P/E, P/B, and ROE based on NP (excl minority interests)
Source: NH I&S Research Center estimates

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Summary

POSCO was founded in Apr 1968. It operates integrated steel mills in Pohang and Gwangyang, and its main products are HR, CR, steel plate, automotive sheet, STS, and API pipes. In 2020, the firm produced a total of 40.58mn tons of crude steel and booked consolidated sales of W57.8tn (-10.2% y-y), dividing as: steel 49%, trading 36%, E&C 8%, and other 5%. Over the long term, the firm plans to strengthen its rechargeable battery materials and hydrogen energy businesses. We expect POSCO shares to rebound solidly moving ahead, backed by recovering steel demand driven by economic stimulus packages and efforts to achieve carbon neutrality.

Share price drivers/earnings momentum

- Chinese steel industry's aggressive production reduction
- Rising steel prices in China
- Increased global efforts for carbon emission reduction

Downside risks

- Drastic iron ore price drop and steel price decline
- Chinese government's intervention in commodity market
- Economic contraction due to prolonged supply disruptions

Cross valuations

(Unit: x, %)

Company	P/E		P/B		ROE	
	2021E	2022F	2021E	2022F	2021E	2022F
Nippon Steel	4.8	6.4	0.6	0.6	12.6	8.9
JFE Holdings	4.2	5.4	0.5	0.5	13.1	9.5
Baosteel	5.8	5.6	0.8	0.8	14.1	13.6
US Steel	1.6	2.9	0.7	0.6	44.5	19.6
ArcelorMittal	2.8	4.1	0.7	0.6	25.2	14.3

Source: Factset, NH I&S Research Center

Historical valuations

(Unit: x, %)

Valuations	2019	2020	2021E	2022F	2023F
P/E	19.9	24.2	4.1	5.9	8.0
P/B	0.5	0.5	0.5	0.5	0.5
P/S	0.3	0.4	0.4	0.4	0.4
ROE	4.2	3.6	13.9	8.7	6.1
ROIC	5.4	3.5	15.6	10.7	8.0

Source: NH I&S Research Center

Historical key financials

(Unit: Wbn, won, %)

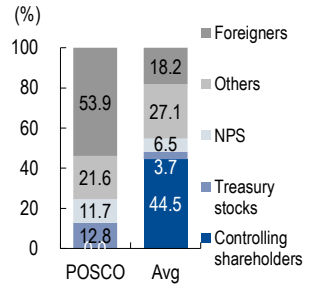
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sales	**63,604**	**61,865**	**65,098**	**58,192**	**53,084**	**60,655**	**64,978**	**64,367**	**57,793**
OP	3,653	2,996	3,214	2,410	2,844	4,622	5,543	3,869	2,403
OPM (%)	*5.7*	*4.8*	*4.9*	*4.1*	*5.4*	*7.6*	*8.5*	*6.0*	*4.2*
Pre-tax profit	3,368	1,946	1,378	181	1,433	4,180	3,563	3,053	2,025
NP	**2,386**	**1,355**	**557**	**-96**	**1,048**	**2,973**	**1,892**	**1,983**	**1,788**
NP (excl minority interests)	**2,462**	**1,376**	**626**	**181**	**1,363**	**2,790**	**1,691**	**1,835**	**1,602**
EBITDA	6,217	5,682	6,452	5,628	6,058	7,919	8,810	7,330	6,025
Capex	7,055	6,570	3,506	2,560	2,324	2,288	2,136	2,519	3,197
Free cash flow	265	-1,711	-93	5,042	2,945	3,320	3,734	3,485	5,489
EPS (won)	21,151	8,524	-154	-5,268	8,296	24,661	10,215	11,859	11,262
BPS (won)	452,524	482,252	476,991	472,954	486,007	501,600	497,452	510,076	508,464
DPS (won)	8,000	8,000	8,000	8,000	8,000	8,000	10,000	10,000	8,000
Net debt	18,076	18,733	21,876	16,013	14,600	10,777	9,190	7,514	3,641
ROE (%)	*6.3*	*3.4*	*1.5*	*0.4*	*3.3*	*6.5*	*3.9*	*4.2*	*3.6*
ROIC (%)	*5.6*	*4.4*	*2.5*	*-2.8*	*3.7*	*7.1*	*5.5*	*5.4*	*3.5*
DPR (%)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
DY (%)	*2.3*	*2.5*	*2.9*	*4.8*	*3.1*	*2.4*	*4.1*	*4.2*	*2.9*
Net debt ratio (%)	*42.6*	*40.9*	*48.3*	*35.5*	*31.9*	*22.7*	*19.7*	*15.7*	*7.6*

Source: POSCO, NH I&S Research Center

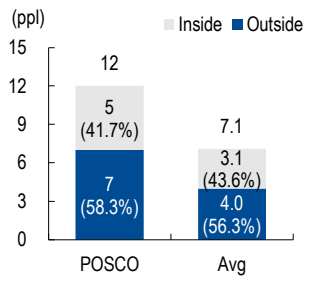
ESG indices & events

G

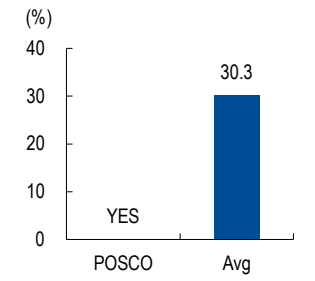
BOD composition



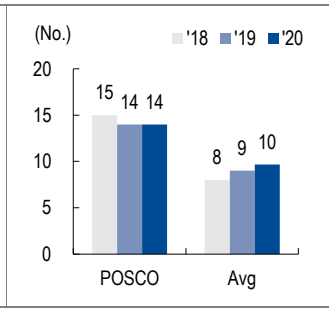
BOD chair and CEO separation



Conformity to KRX's key indicators



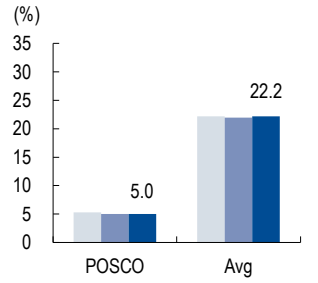
BOD composition



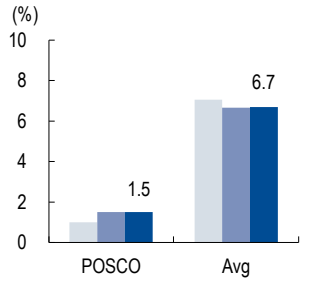
Note 1: Average breakdown based on 175 non-financial companies subject to 2021 mandatory disclosure of corporate governance reports
Note 2: Conformity rate based on respective company's conformity to the KRX's 15 core indicators (included in the governance report)
Source: POSCO, DART, NH I&S Research Center

S

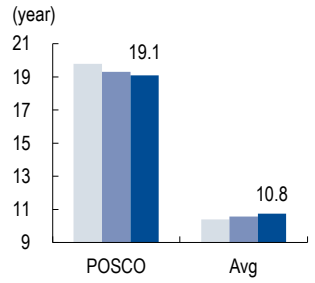
Portion of female employees



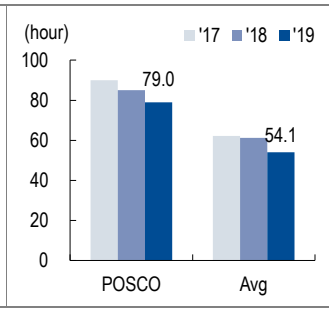
Portion of contract workers



Avg service period per employee



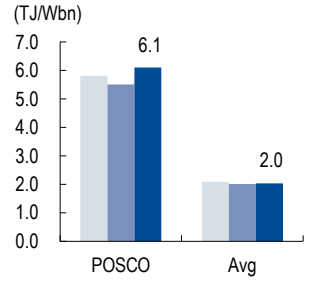
Avg training hours per employee



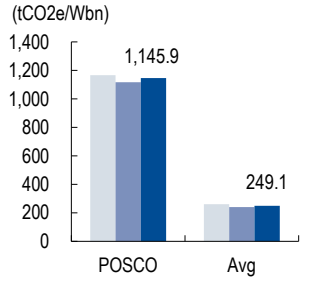
Note: Average breakdown based on 66 firms disclosing ESG data amongst 171 non-financial companies subject to 2020 mandatory disclosure of corporate governance reports
Source: POSCO, NH I&S Research Center

E

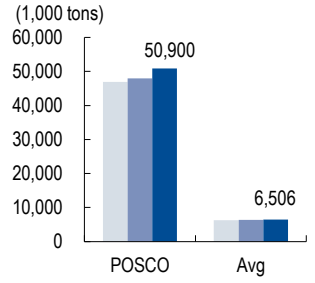
Energy consumption



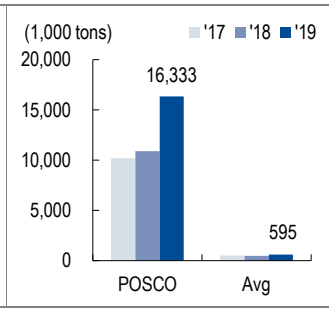
Greenhouse gas emissions



Recycled water



Recycled waste



Note: Average breakdown based on 66 firms disclosing ESG data amongst 171 non-financial companies subject to 2020 mandatory disclosure of corporate governance reports
Source: POSCO, NH I&S Research Center

ESG events

E	2020.12	– Ventured into green hydrogen project with FMG
	2020.12	– Announced plan to beef up hydrogen production capacity to 5mn tons by 2050
S	2020.11	– Accident at Gwangyang Steelworks killed three workers
	2021.1	– Adopted a certification system for fair trade compliance for the first time among domestic companies
G	2020.12	– POSCO's BOD unanimously voted to recommend Choi Jeong-woo as candidate for next CEO
	2021.02	– ESG committee (a sub-committee under the BOD) was created

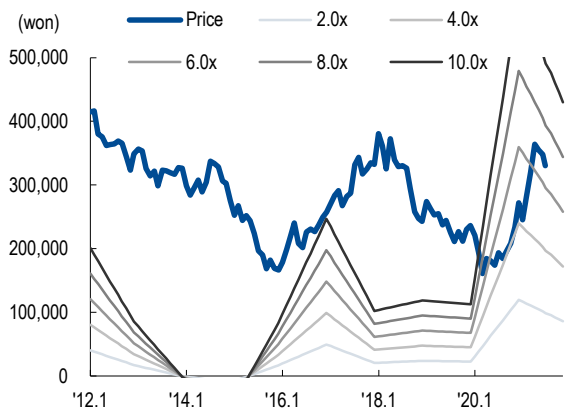
Source: POSCO, NH I&S Research Center

Earnings forecasts (IFRS consolidated) (Unit: Wbn, won, x, %)

		2020	2021E	2022F	2023F
Sales	- Revised	57,793	73,547	72,265	69,816
	- Previous	57,793	69,922	68,405	65,529
	- Change		5.2	5.6	6.5
OP	- Revised	2,403	9,266	7,310	5,504
	- Previous	2,403	8,933	6,395	5,106
	- Change		3.7	14.3	7.8
OPM	- Revised	*4.2*	*12.6*	*10.1*	*7.9*
EBITDA		6,025	12,367	10,442	8,653
NP (excl minority interests)		1,602	6,515	4,477	3,297
EPS	- Revised	11,262	74,729	51,348	37,821
	- Previous		68,860	44,361	34,783
	- Change		8.5	15.8	8.7
P/E		24.2	4.1	5.9	8.0
P/B		0.5	0.5	0.5	0.5
EV/EBITDA		5.1	2.5	2.7	3.0
ROE		3.6	13.9	8.7	6.1

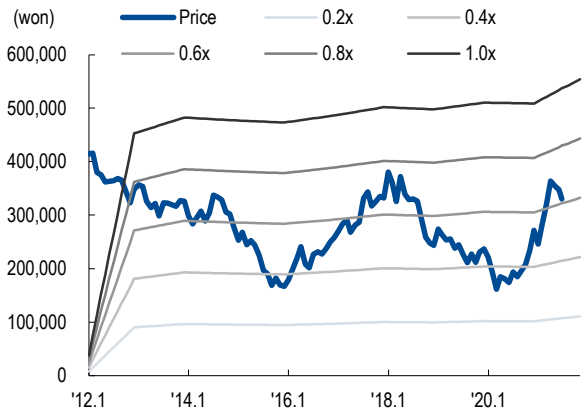
Note: EPS, P/E, P/B, and ROE based on NP (excluding minority interests)
Source: NH I&S Research Center estimates

Forward P/E Band



Source: FnGuide, NH I&S Research Center

Trailing P/B Band



Source: FnGuide, NH I&S Research Center

Quarterly earnings forecasts

(Unit: Wbn, %)

		2020					2021E				
		1Q	2Q	3Q	4Q	Annual	1Q	2Q	3Q	4Q	Annual
K-IFRS consolidated	Sales	14,546	13,722	14,261	15,264	57,793	16,069	18,292	20,637	18,548	73,547
	OP	705	168	667	863	2,403	1,552	2,201	3,117	2,395	9,266
	OPM	*4.8*	*1.2*	*4.7*	*5.7*	*4.2*	*9.7*	*12.0*	*15.1*	*12.9*	*12.6*
	Pre-tax profit	660	134	712	518	2,025	1,560	2,398	3,359	2,041	9,357
	NP	435	105	514	735	1,788	1,139	1,807	2,628	1,370	6,944
K-IFRS non-consolidated	Sales	6,970	5,885	6,578	7,077	26,510	7,800	9,277	11,315	11,368	39,760
	OP	458	-108	262	524	1,135	1,073	1,608	2,296	1,845	6,822
	OPM	*6.6*	*-1.8*	*4.0*	*7.4*	*4.3*	*13.8*	*17.3*	*20.3*	*16.2*	*17.2*
	Pre-tax profit	617	-51	280	171	1,018	1,306	1,830	2,475	1,733	7,344
	NP	453	7	181	325	966	952	1,318	1,840	1,213	5,323

Source: POSCO, NH I&S Research Center estimates

Earnings indicators (K-IFRS non-consolidated)

	2019	2020					2021E				
		1Q	2Q	3Q	4Q	Sub-total	1Q	2Q	3Q	4Q	Sub-total
Sales (Wbn)	**30,374**	6,970	5,885	6,578	7,077	**26,510**	7,800	9,277	11,315	11,368	**39,760**
Carbon steel	**24,562**	5,638	4,724	5,355	5,780	**21,497**	6,354	7,675	9,346	9,272	**32,647**
STS	**4,132**	979	854	914	996	**3,743**	1,058	1,144	1,370	1,490	**5,062**
Other	**1,680**	353	307	309	301	**1,270**	388	458	599	606	**2,051**
Crude steel output ('000 tons)	**38,007**	9,066	7,793	9,498	9,577	**35,934**	9,559	9,448	9,703	9,462	**38,172**
Steel product output ('000 tons)	**35,758**	8,723	7,851	8,869	9,012	**34,455**	8,920	9,018	9,113	9,054	**36,105**
Sales volume ('000 tons)	**35,992**	8,621	7,762	8,895	8,992	**34,270**	8,811	8,999	9,022	9,007	**35,839**
HR	**8,786**	2,073	2,123	2,470	2,353	**9,019**	2,107	2,363	2,287	2,213	**8,970**
CR	**14,424**	3,460	2,576	3,469	3,560	**13,065**	3,674	3,557	3,706	3,655	**14,592**
Electrical steel	**784**	207	193	208	207	**815**	219	204	211	191	**825**
Plate	**5,928**	1,477	1,350	1,366	1,403	**5,596**	1,381	1,438	1,404	1,437	**5,660**
Wire rod	**2,757**	654	642	656	708	**2,660**	674	693	675	693	**2,735**
STS	**1,968**	470	415	451	482	**1,818**	480	479	506	485	**1,950**
Other	**1,345**	280	463	275	279	**1,297**	276	265	233	332	**1,106**
Carbon steel ASP ('000/ton)	**722**	692	643	634	679	**662**	763	901	1,097	1,088	**963**
GP (Wbn)	**3,673**	739	142	514	792	**2,187**	1,334	1,865	2,602	2,107	**7,908**
OP (Wbn)	**2,586**	458	-108	262	524	**1,135**	1,073	1,608	2,296	1,845	**6,822**
OPM	**8.5**	6.6	-1.8	4.0	7.4	**4.3**	13.8	17.3	20.3	16.2	**17.2**
Pre-tax profit (Wbn)	**1,831**	617	-51	280	171	**1,018**	1,306	1,830	2,475	1,733	**7,344**
NP (Wbn)	**1,176**	453	7	181	325	**966**	952	1,318	1,840	1,213	**5,323**

Source: POSCO, NH I&S Research Center

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2020/12A	2021/12E	2022/12F	2023/12F
Sales	**57,793**	**73,547**	**72,265**	**69,816**
Growth (%)	-10.2	27.3	-1.7	-3.4
COGS	**53,072**	**61,732**	**62,401**	**61,825**
Gross Profit	**4,720**	**11,815**	**9,864**	**7,991**
Gross margin (%)	8.2	16.1	13.6	11.4
SG&A	2,317	2,550	2,554	2,487
Operating Income	**2,403**	**9,266**	**7,310**	**5,504**
Growth (%)	-37.9	285.6	-21.1	-24.7
Operating margin (%)	4.2	12.6	10.1	7.9
EBITDA	**6,025**	**12,367**	**10,442**	**8,653**
Non-Operating Profit	**-378**	**92**	**-588**	**-553**
Financial Income(Costs)	-215	-42	3	58
Other Non-Operating Profit	-296	134	-591	-611
Gains(Losses) in Associates, Subsidiaries and JVs	133	0	0	0
Pre-tax Profit from Cont. Op.	**2,025**	**9,357**	**6,721**	**4,951**
Income Taxes	**237**	**2,413**	**1,984**	**1,461**
Profit from Continuing Op.	1,788	6,944	4,737	3,489
Net Profit	**1,788**	**6,944**	**4,737**	**3,489**
Growth (%)	-9.8	288.4	-31.8	-26.3
Net margin (%)	3.1	9.4	6.6	5.0
Net Profit of Parent	1,602	6,515	4,477	3,298
Net Profit to Non-Controlling	186	428	261	192
Other Comprehensive Income	-218	0	0	0
Total Comprehensive Income	1,570	6,944	4,737	3,489

Valuation / Profitability / Stability

	2020/12A	2021/12E	2022/12F	2023/12F
Price/ Earnings (X)	24.2	4.1	5.9	8.0
Price/ Book Value (X)	0.5	0.5	0.5	0.5
Price/ Gross Cash Flow (X)	3.6	2.1	2.7	3.3
Price/ Sales (X)	0.4	0.4	0.4	0.4
EV/ EBITDA (X)	5.1	2.5	2.7	3.0
EV/ EBIT (X)	12.8	3.4	3.9	4.7
Fully diluted EPS (W)	11,262	74,729	51,348	37,821
BVPS (W)	508,464	570,182	610,254	637,666
Sales PS (W)	662,861	843,552	828,854	800,762
ROE (%)	3.6	13.9	8.7	6.1
ROA (%)	2.3	8.3	5.3	3.9
ROIC (%)	3.5	15.6	10.7	8.0
Dividend Yield (%)	2.9	4.9	4.3	4.0
Payout Ratio (%)	0.0	17.4	22.0	27.5
Total Cash Dividend (Wbn)	620	1,134	983	908
Cash DPS (W)	8,000	15,000	13,000	12,000
Net debt(cash)/ equity (%)	7.6	1.9	-3.9	-7.9
Debt/ equity (%)	65.9	66.2	58.1	51.6
Interest-Bearing Debts (Wbn)	20,498	21,610	19,695	17,775
Current Ratio (%)	212.6	217.2	229.8	240.7
Total shares (mn)	87	87	87	87
Par value (W)	5,000	303,500	303,500	303,500
Share price (W)	272,000	303,500	303,500	303,500
Market Cap (Wbn)	23,715	26,461	26,461	26,461

STATEMENT OF FINANCIAL POSITION

(Wbn)	2020/12A	2021/12E	2022/12F	2023/12F
Cash and Cash Equivalents	4,755	5,171	6,774	7,892
Accounts Receivables	7,472	9,509	9,343	9,026
Total Current Assets	**35,831**	**44,384**	**45,328**	**45,187**
Tangible Assets	29,400	29,503	29,647	29,949
Investment Assets	5,937	7,468	8,294	8,636
Non-Current Assets	**43,256**	**44,481**	**45,148**	**45,516**
Assets	**79,087**	**88,865**	**90,476**	**90,702**
Short-Term Debt	9,099	10,561	10,027	9,402
Account Payables	3,756	4,779	4,696	4,537
Current Liabilities	**16,855**	**20,431**	**19,725**	**18,771**
Long-Term Debt	12,449	12,267	10,876	9,563
Long-Term Allowance	190	242	238	230
Non-Current Liabilities	**14,557**	**14,950**	**13,513**	**12,111**
Liabilities	**31,412**	**35,381**	**33,238**	**30,882**
Capital Stock	482	482	482	482
Capital Surplus	1,311	1,311	1,311	1,311
Retained Earnings	46,111	51,492	54,986	57,376
Non-Controlling Interests Equity	3,343	3,772	4,032	4,224
Shareholders' Equity	**47,675**	**53,484**	**57,238**	**59,820**

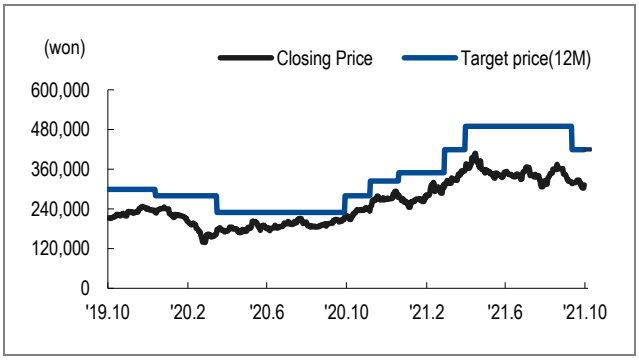
CASH FLOW STATEMENT

(Wbn)	2020/12A	2021/12E	2022/12F	2023/12F
Operating Cash Flow	**8,686**	**7,953**	**8,058**	**6,983**
Net Profit	1,788	6,944	4,737	3,489
Depreciation&Amortization	3,622	3,102	3,132	3,149
+ Loss(Gains) from Subs	-208	0	0	0
+ FC translation loss(profit)	0	0	0	0
Gross Cash Flow	6,521	12,649	9,967	8,130
- Incr. (Decr.) in WC	2,804	-2,109	172	329
Investing Cash Flow	**-6,259**	**-7,626**	**-3,530**	**-3,004**
+ Decr. In Tangible Assets	0	0	0	0
- Incr. In Tangible Assets(CAPEX)	-3,197	-2,868	-2,972	-3,175
+ Disp.(Acq.) of Inv. Assets	214	-1,531	-827	-342
Free Cash Flow	5,489	5,085	5,086	3,808
Net Cash Flow	2,426	327	4,528	3,979
Financing Cash Flow	**-1,091**	**89**	**-2,924**	**-2,861**
Equity Financing	-66	0	0	0
Debt Financing	-1,025	89	-2,924	-2,861
Incr.(Decr.) in Cash	1,240	415	1,603	1,118
Ending Cash and Cash Equivalents	4,756	5,171	6,774	7,892
Net Debt (Cash)	3,641	1,039	-2,211	-4,736

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2021.10.06	Buy	W420,000(12M)	-	-
2021.04.26	Buy	W490,000(12M)	-28.7%	-16.4%
2021.03.25	Buy	W420,000(12M)	-20.3%	-15.4%
2021.01.14	Buy	W350,000(12M)	-19.9%	-8.1%
2020.12.01	Buy	W325,000(12M)	-16.0%	-9.4%
2020.10.23	Buy	W280,000(12M)	-17.5%	-12.5%
2020.04.10	Buy	W230,000(12M)	-17.8%	-8.5%
2020.01.07	Buy	W280,000(12M)	-29.4%	-11.8%
2019.05.27	Buy	W300,000(12M)	-23.9%	-16.0%

POSCO (005490.KS)



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1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Oct 22, 2021).

- NH I&S' stock rating distribution

Buy	Hold	Sell
79.6%	19.9%	0.5%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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