

IFRS vs GAAP

While I was gathering financial data to forecast the cashflows for Korean stocks, I noticed a lot of the companies are transitioning from GAAP to IFRS reporting. As a result, the reported margins and bottom-line figures are not comparable. The divergence effort has been a difficult undertaking and has been ongoing in the US and Korea, and the resulting figures are not appealing to investors, who aren't able to reconcile the difference.

As one can see below, the reported figures are vastly different. For example, the 영업이익, or EBIT, in the 10th year since inception, IFRS reports a 59MM loss, whereas GAAP shows a 1.2BB gain.

| IFRS | | | GAAP | | |
|-------------|----------------|----------------|-----------------|----------------|----------------|
| | 제 11 기 | 제 10 기 | | 제 11 기 | 제 10 기 |
| 매출액 | 49,666,396,457 | 28,689,867,402 | 매출액 | 49,666,396,457 | 28,689,867,402 |
| 매출원가 | 45,295,482,106 | 25,966,271,980 | 매출원가 | 45,305,287,013 | 25,357,621,066 |
| 매출총이익 | 4,370,914,351 | 2,723,595,422 | 매출총이익 | 4,361,109,444 | 3,332,246,336 |
| 기타수익 | 977,355,685 | 1,511,173,258 | 기타수익 | 859,600,619 | 1,305,521,031 |
| 판매비와관리비 | 2,724,592,036 | 3,253,939,034 | 판매비와관리비 | 1,967,557,371 | 2,673,836,180 |
| 기타비용 | 2,063,600,210 | 1,040,375,892 | 기타비용 | 1,903,069,811 | 738,942,087 |
| 영업이익 | 560,077,780 | (59,546,246) | 영업이익 | 1,350,082,881 | 1,224,989,100 |
| 금융수익 | 443,725,246 | 548,524,118 | 금융수익 | 442,806,963 | 547,765,852 |
| 금융비용 | 73,378,360 | 77,037,254 | 금융비용 | 64,198,218 | 74,102,660 |
| 법인세비용차감전순이익 | 930,424,676 | 411,940,618 | 법인세비용차감전순이익(손실) | 1,728,691,626 | 1,698,652,292 |
| 법인세비용 | 27,346,968 | 157,465,332 | 법인세비용 | 24,730,148 | 154,994,646 |
| 당기순이익 | 903,077,708 | 254,475,286 | 당기순이익 | 1,703,961,478 | 1,543,657,646 |

We can attempt to explain the variance. Under IFRS, LIFO method is disallowed, leaving FIFO or average cost methods, meaning the COGS should decrease, improving gross margins. However, this was not the case. Also, 판매비와관리비, jumped from 2.6BB to 3.3BB KRW. As a result, under IFRS, this particular company's operating cash flow is cut in half, which would affect the valuation of the stock.

I am honestly in a state of limbo, as I am unsure of both GAAP and IFRS now. One of the tedious parts of being an analyst is adjusting all the figures so that they are comparable. This roadblock will not do us any good, especially when we are revamping our Korean valuation model. We noticed the income statement figures were off, comparing the figures from our data source and the data figures uploaded to the regulatory body.

The default choice would be to manually run the valuations by hand, but we differentiated ourselves by providing a high volume of valuations on a routine basis for the US companies. However, if we can't do that for Korean stocks, then we will lose our edge. On the other hand, we felt our research for US equities was shallow, so it may turn out to be for the better, if we spend more time on each valuation, maybe writing more in-depth industry summaries, comp analysis and etc.

What to do, what to do....