

Hyundai Mobis (012330)

Above

In line

Below

12M rating **BUY (Maintain)**

12M TP **W400,000** from W400,000

Up/downside **+40%**

Stock Data

KOSPI (Oct 25, pt)	1,925
Stock price (Oct 25, KRW)	286,500
Market cap (USD mn)	24,351
Shares outstanding (mn)	97
52-Week high/low (KRW)	353,000/266,000
6M avg. daily turnover (USD mn)	65.3
Free float / Foreign ownership (%)	68.0/50.2
Major shareholders (%)	
KIA Motors Corporation and 4 others	30.2
Alliance Bernstein LP	7.1

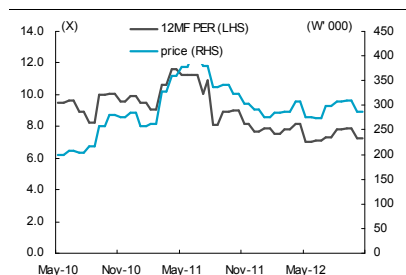
Valuation

	2011A	2012F	2013F
PER (x)	9.2	8.4	7.5
PBR (x)	2.0	1.6	1.4
ROE (%)	24.5	21.7	19.9
EV/EBITDA (x)	9.5	8.6	7.3
EPS (KRW)	31,046	34,275	38,293
BPS (KRW)	141,673	174,274	210,867

Performance

	1M	6M	12M
Absolute (%)	(10.6)	(2.2)	(18.5)
Relative to KOSPI (%p)	(7.2)	(0.3)	(20.4)

12MF PER trend



Source: WISEfn consensus

3Q12 review: Strikes inflict pain

What's new: Pain from strikes

The 3Q12 results were mixed. Although sales were 4.5% above our estimate at W7,467.2bn (+15% YoY), OP slipped 3.9% YoY to W641.1bn, 7.7% less. As such, OPM fell to 8.6% from 10.3% a year ago. We attribute the poorer OPM to a greater-than-expected blow from strikes at Hyundai Motor and Kia Motors and continued losses at the finance division. The business made a W14.1bn operating loss in 3Q12, down from W50.5bn in 2Q12. As such, excluding the finance division, OPM reached 9.1%, down from 10.1% in 2Q12. The aftermarket division's sales advanced 10% YoY while OP grew only 5.2% YoY. As such, the aftermarket division's OPM fell to 20.9% in 3Q12 from 21.8% a year earlier. Module sales jumped 11.4% YoY but the margin fell to 6% from 7.2% due to a greater sales weighting of simple modules. Simple module sales posted bigger growth of 15% YoY to W3,481bn compared to 6.2% YoY growth in core parts sales (W2,228.3bn). We maintain BUY and our TP of W400,000 at 12x 12MF PE, a 10% discount to the past high.

Pros: Margin to improve

The EBT jumped 20.7% YoY to W1,097.7bn, 3.5% more than our estimate, due to a 14.1% YoY rise in equity-method gains (W350.2bn in 3Q11 → W399.5bn in 3Q12). We believe OPM will rebound to 10.1% in 4Q12 thanks to Hyundai and Kia's rising utilization. In addition, Mobis' mid to long-term outlook remains bright as we forecast Hyundai and Kia's combined global market share to rise from 8.7% in 2011 to 10% in 2015. Following the EU's lifting of a 3.2% tariff from Jul 2011, the KORUS FTA removed a 2.5% tariff in Mar. After Mobis joined the world's top-10 OEM club in 2010, its global rank in *Automotive News*' "Top 100 suppliers" climbed to eighth in 2011. It is also noteworthy that Mobis provides the adaptive full LED lamp and around-view monitoring system for Kia's K9 luxury sedan. This occasion follows the start of supplying its TPMS (tire pressure monitoring system) for the Hyundai Veloster in Mar 2011.

Cons: Rising R&D costs

Its R&D costs are on the rise. We forecast its R&D investment to grow double-digits p.a. through 2015. In 3Q12, R&D investment jumped 11.9% YoY to W93.4bn. In a word, its aggressive R&D investment has been eroding the margin since 2H11 but its mid to long-term business outlook is brightening due to its rapidly improving technologies.

(W bn, %, %p)

	3Q12P				Change		2012F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	7,147.0	7,467.2	4.5	7,244.8	(3.0)	15.0	30,084.7	30,111.2
OP	694.3	641.1	(7.7)	701.1	(9.1)	(3.9)	2,844.5	2,910.2
OP margin	9.7	8.6	(1.1)	9.7	(0.6)	(1.7)	9.5	9.7
EBT	1,061.0	1,097.7	3.5	1,100.0	(1.7)	20.7	4,455.5	4,614.4
NP	795.8	819.5	3.0	837.4	(7.3)	16.0	3,341.7	3,540.8

Source: Company data, Korea Investment & Securities estimates

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**3Q12 OP reached
W641.1bn**

Table 1. Quarterly results and forecasts (W bn, %)

	1Q11	2Q11	3Q11	4Q11	FY11	1Q12	2Q12	3Q12P	4Q12F	FY12F
Sales	6,196.0	6,561.4	6,495.9	7,041.3	26,294.6	7,341.5	7,697.3	7,467.2	7,578.8	30,084.7
OP	686.8	734.3	667.0	586.8	2,674.9	730.6	705.5	641.1	767.3	2,844.5
EBT	1,042.1	1,152.6	909.4	958.8	4,063.0	1,211.7	1,116.3	1,097.7	1,029.8	4,455.5
NP	800.8	898.3	706.2	621.6	3,026.8	938.3	883.9	819.5	700.0	3,341.7
OP mgn	11.1	11.2	10.3	8.3	10.2	10.0	9.2	8.6	10.1	9.5
EBT mgn	16.8	17.6	14.0	13.6	15.5	16.5	14.5	14.7	13.6	14.8
NP mgn	12.9	13.7	10.9	8.8	11.5	12.8	11.5	11.0	9.2	11.1
% YoY										
Sales	23.2	16.1	20.1	16.3	18.7	18.5	17.3	15.0	7.6	14.4
OP	6.5	3.9	19.1	(1.5)	6.7	6.4	(3.9)	(3.9)	30.8	6.3
EBT	17.5	25.5	8.6	14.2	16.7	16.3	(3.1)	20.7	7.4	9.7
NP	18.2	23.3	10.3	(7.2)	11.5	17.2	(1.6)	16.0	12.6	10.4

Source: Company data, Korea Investment and Securities estimates

Table 2. Sales and operating profit by division (W bn)

**Modules OPM fell
to 6% in 3Q12 from
7.2% a year earlier**

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	% YoY	2Q12	% YoY	3Q12	% YoY
Total sales	5,027.7	5,651.9	5,407.1	6,056.8	6,196.0	6,561.4	6,495.9	7,041.3	7,341.5	18.5	7,697.3	17.3	7,467.2	15.0
AS parts	1,132.5	1,213.8	1,189.9	1,227.5	1,361.1	1,350.8	1,369.0	1,310.3	1,490.3	9.5	1,485.9	10.0	1,505.9	10.0
% of sales	22.5	21.5	22.0	20.3	22.0	20.6	21.1	18.6	20.3		19.3		20.2	
Modules	3,895.2	4,438.1	4,217.2	4,829.3	4,834.9	5,210.6	5,126.9	5,731.0	5,713.1	18.2	5,992.0	15.0	5,709.3	11.4
% of sales	77.5	78.5	78.0	79.7	78.0	79.4	78.9	81.4	77.8		77.8		76.5	
Modules	2,350.2	2,768.1	2,543.9	2,876.0	2,929.1	3,171.6	3,028.1	3,483.0	3,527.0	20.4	3,718.0	17.2	3,481.0	15.0
Core parts	1,545.0	1,670.0	1,673.3	1,953.3	1,905.8	2,039.0	2,098.8	2,248.0	2,186.1	14.7	2,274.0	11.5	2,228.3	6.2
Finance									138.1	NM	219.3	NM	251.9	NM
% of sales									1.9		2.8		3.4	
OP	645.0	706.4	560.2	595.5	686.8	734.3	667.0	586.8	730.6	6.4	705.5	(3.9)	641.1	(3.9)
% of sales	12.8	12.5	10.4	9.8	11.1	11.2	10.3	8.3	10.0		9.2		8.6	
AS parts	308.8	336.7	278.9	258.8	333.8	308.6	298.8	284.0	327.5	(1.9)	356.8	15.6	314.3	5.2
% of sales	27.3	27.7	23.4	21.1	24.5	22.8	21.8	21.7	22.0		24.0		20.9	
Modules	336.2	369.7	281.3	336.7	353.0	425.7	368.2	302.8	380.1	7.7	399.1	(6.2)	340.9	(7.4)
% of sales	8.6	8.3	6.7	7.0	7.3	8.2	7.2	5.3	6.7		6.7		6.0	
Finance									23.0	NM	(50.5)	NM	(14.1)	NM
% of sales									16.7		(23.0)		(5.6)	

Source: Company data, Korea Investment and Securities

Table 3. SG&A breakdown (W bn)

**R&D and labor
costs jumped**

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	% YoY	2Q12	% YoY	3Q12	% YoY
Total	301.7	334.8	336.7	270.9	303.1	328.5	380.1	387.6	372.0	22.7	380.9	16.0	431.0	13.4
R&D expense	54.4	56.9	71.8	80.3	62.9	71.5	83.5	96.1	74.5	18.4	81.4	13.8	93.4	11.9
Labor	84.5	80.6	95.4	72.1	84.7	86.4	109.5	104.4	100.2	18.3	104.4	20.8	117.9	7.7
Depreciation	29.1	28.6	21.2	20.6	24.6	23.8	23.5	19.3	22.3	(9.3)	23.2	(2.5)	24.5	4.3
Freight	20.9	49.4	39.2	-13.0	26.2	29.5	28.8	33.5	31.2	19.1	33.6	13.9	33.1	14.9
Commission	46.8	42.1	37.8	33.8	40.2	40.6	46.3	39.9	49.3	22.6	42.0	3.4	51.4	11.0
Others	66.0	77.2	71.3	77.1	64.5	76.7	88.5	94.4	94.5	46.5	96.3	25.6	110.7	25.1

Source: Company data, Korea Investment and Securities

Company overview & Glossary

Incorporated in 1977 under the name 'Hyundai Precision', Hyundai Mobis was reborn as an exclusive module maker for Hyundai and Kia Motors in 2000. Mobis is now focused on aftermarket part sales and module businesses including car electronic parts. Mobis is Hyundai Motor's largest shareholder with a 20.78% stake. After Mobis joined the ranks of the world's top-10 OEM club in 2010, its rank climbed to eighth in 2011 on the back of Hyundai and Kia's continuing outperformance and Mobis' mounting orders from overseas automakers.

- Module: The chassis module is an assembled frame module on which vehicle body and powertrain are mounted, is located on the lower part of the vehicle, and consists of suspension, steering, and brake. The cockpit module is an assembled unit which consists of instrument panel, dashboard, electronic components including audio, air-conditioning/heating system and airbags. The Front-end module is an assembled unit which consists of front carrier, head lamps, radiator grille and horn.

Balance Sheet

Fiscal year ending Dec. (W bn)	2010A	2011A	2012F	2013F	2014F
Current assets	8,456.8	10,063.5	10,804.0	11,558.6	12,528.0
Cash & cash equivalents	2,448.1	2,059.2	2,920.0	3,852.0	4,872.0
Accounts receivable	4,081.9	4,773.6	5,256.0	5,778.0	6,264.0
Inventory	1,564.4	1,837.0	1,752.0	1,928.6	2,088.0
Fixed assets	9,543.4	12,232.9	15,797.8	19,242.6	22,391.3
Investments	5,707.9	8,052.6	11,300.4	14,445.0	17,400.0
Tangible assets	2,946.4	3,319.4	3,532.4	3,738.3	3,842.9
Intangible assets	889.1	861.0	965.0	1,059.3	1,148.4
Total assets	18,298.1	22,576.6	26,602.1	30,800.7	34,919.7
Current liabilities	5,787.8	7,026.5	7,589.1	8,021.8	8,040.5
Accounts payable	3,356.9	3,924.6	4,259.3	4,682.3	5,076.1
Short-term borrowings	1,806.4	2,452.6	2,625.1	2,564.8	2,124.5
Current portion of LT debt	0.0	0.0	0.0	0.0	0.0
Long-term debt	1,549.8	1,754.5	2,044.0	2,247.0	2,436.0
Debentures	539.1	327.3	350.4	353.1	348.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Total liabilities	7,337.7	8,781.1	9,633.1	10,268.8	10,476.5
Paid-in capital	491.1	491.1	491.1	491.1	491.1
Capital surplus	1,359.3	1,385.7	1,385.7	1,385.7	1,385.7
Capital adjustments	(378.2)	(394.6)	(394.6)	(394.6)	(394.6)
Retained earnings	9,488.4	12,312.3	15,486.7	19,049.7	22,960.8
Shareholders' equity	10,960.5	13,794.6	16,969.0	20,531.9	24,443.1

Cash Flow

Fiscal year ending Dec. (W bn)	2010A	2011A	2012F	2013F	2014F
C/F from operations	2,267.3	2,159.4	4,254.9	4,823.7	5,017.4
Net profits	2,715.2	3,026.8	3,341.7	3,733.4	4,081.6
Depreciation	263.5	295.1	282.9	299.9	306.3
Amortization	68.1	56.2	120.0	120.0	120.0
Net incr. in W/C	(1,628.2)	(1,403.1)	510.3	670.4	509.6
Others	848.7	184.4	0.0	0.0	0.0
C/F from investing	(656.8)	(2,852.1)	(3,422.5)	(3,663.7)	(3,381.7)
Capex	(415.4)	(716.1)	(600.0)	(600.0)	(500.0)
Decr. in fixed assets	50.1	25.9	0.0	0.0	0.0
Net incr. in current assets	4,776.6	1,606.7	740.5	754.6	969.4
Incr. in investment	631.1	(943.7)	(1,671.8)	(1,485.1)	(1,209.2)
Others	(5,699.2)	(2,824.9)	(1,891.1)	(2,333.2)	(2,641.9)
C/F from financing	(252.3)	278.6	28.4	(228.0)	(615.7)
Incr. in equity	17.2	26.5	0.0	0.0	0.0
Incr. in debt	1,596.5	646.2	172.5	(60.3)	(440.3)
Dividends	(120.3)	(144.6)	(167.2)	(170.4)	(170.4)
Others	(1,745.8)	(249.4)	23.1	2.7	(5.1)
Increase in cash	1,333.0	(388.9)	860.8	932.0	1,020.0

Note: K-IFRS (consolidated)

Income Statement

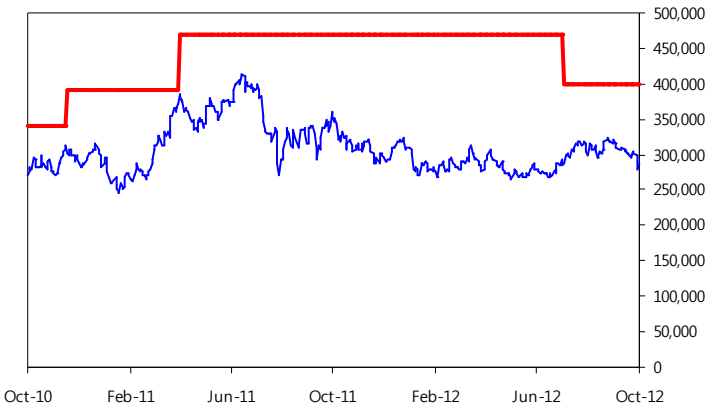
Fiscal year ending Dec. (W bn)	2010A	2011A	2012F	2013F	2014F
Sales	22,144	26,295	30,085	33,165	35,945
Gross profit	3,764	4,039	4,410	4,941	5,425
SG&A expenses	1,244	1,401	1,608	1,721	1,847
Other operating gains	(13)	37	42	47	51
Operating profit	2,507	2,675	2,844	3,266	3,629
Financial income	233	282	265	300	308
Interest income	48	89	109	122	126
Financial expenses	222	295	230	248	241
Interest expenses	76	66	54	48	37
Gains in asso., sub. and JV	965	1,401	1,576	1,660	1,746
Earnings before tax	3,483	4,063	4,456	4,978	5,442
Income taxes	767	1,036	1,114	1,244	1,361
Net profit	2,715	3,027	3,342	3,733	4,082
NP of controlling interest	2,713	3,023	3,337	3,729	4,076
Other comprehensive profit	0	0	0	0	0
Total comprehensive profit	2,715	3,027	3,342	3,733	4,082
Total comprehensive profit of controlling interest	2,713	3,023	3,337	3,729	4,076
EBITDA	2,839	3,026	3,247	3,686	4,055

Key Financial Data

Fiscal year ending Dec.	2010A	2011A	2012F	2013F	2014F
Per-share data (won)					
EPS	27,862	31,046	34,275	38,293	41,865
BPS	112,566	141,673	174,274	210,867	251,035
DPS	1,500	1,750	1,750	1,750	1,750
SPS	227,418	270,050	308,975	340,614	369,166
Growth (%)					
Sales growth	108.3	18.7	14.4	10.2	8.4
OP growth	76.3	6.7	6.3	14.8	11.1
NP growth	68.1	11.5	10.4	11.7	9.3
EPS growth	59.8	11.4	10.4	11.7	9.3
EBITDA growth	71.8	6.6	7.3	13.5	10.0
Profitability (%)					
OP margin	11.3	10.2	9.5	9.8	10.1
NP margin	12.3	11.5	11.1	11.3	11.4
EBITDA margin	12.8	11.5	10.8	11.1	11.3
ROA	18.4	14.8	13.6	13.0	12.4
ROE	28.9	24.5	21.7	19.9	18.2
Dividend yield	0.5	0.6	0.6	0.6	0.6
Stability					
Net debt (W bn)	(102.6)	720.6	55.5	(934.1)	(2,399.5)
Int. coverage (x)	91.6	(114.0)	(51.7)	(44.2)	(40.8)
D/E ratio (%)	21.4	20.2	17.5	14.2	10.1
Valuation (x)					
PE	10.3	9.2	8.4	7.5	6.8
PB	2.5	2.0	1.6	1.4	1.1
PS	1.3	1.1	0.9	0.8	0.8
EV/EBITDA	9.8	9.5	8.6	7.3	6.3

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Hyundai Mobis (012330)	12-10-10	BUY	W390,000
	04-25-11	BUY	W470,000
	07-27-12	BUY	W400,000



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- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of +15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

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- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

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Prepared by: Sung Moon Suh

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