

## Mando (204320)

**BUY (Maintain), TP W285,000 (Up)**

Stock price (May 30, KRW)	220,500
Market cap (USD mn)	1,738
Shares outstanding (mn)	9
52W High/Low (KRW)	226,000/102,000
6M avg. daily turnover (USD mn)	9.9
Free float (%)	67.9
Foreign ownership (%)	28.6
Major shareholders(%)	
Halla Holdings and 22 others	30.3
NPS	10.2

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)	(%)
2014A	1,721	79	48	5,071	(49.3)	151	36.2	18.3	1.6	3.5	1.1
2015A	5,299	266	126	13,433	164.9	490	12.3	5.3	1.2	10.6	2.9
2016F	5,723	282	170	18,203	35.5	523	12.1	6.1	1.5	12.4	2.0
2017F	6,067	311	190	20,248	11.2	570	10.9	5.6	1.3	12.9	2.3
2018F	6,501	343	211	22,535	11.3	620	9.8	5.2	1.3	13.3	2.7

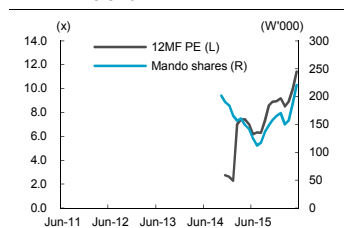
Note: NP in equity-method accounting

### Steering and braking provide finishing touches to self-driving

#### Performance

	1M	6M	12M
Absolute (%)	17.0	39.6	56.4
Rel. to Kospi (%p)	18.3	40.8	63.4

#### 12MF PE trend



**Steering and braking are standard:** The wider penetration of vehicle automation should be an opportunity for Mando that has strength in steering and braking in the “act” part of the three-step mechanism (sense, plan and act) for self-driving. Mando also has a deep understanding of the other parts (sense and plan) through Mando Hella Electronics, an affiliate that manufactures sensors and electronic control units (ECU). Mando has recently been participating in the Hyundai Motor Group’s (HMG) development of self-driving systems and is evolving as a global parts supplier on the back of growing supplies to Tesla (US). HMG’s strategy to expand its advanced driver assistance systems (ADAS) and move toward vehicle automation should offer Mando a springboard to achieve economies of scale. Being a Tesla vendor would help win orders from other global automakers.

**ADAS business positioned to break even:** We estimate Mando’s ADAS business sales will break even in 2016. At present, the ADAS technology is in the middle of a transition toward vehicle automation. With the rapid spread of advanced emergency braking (AEB), the weighting of ADAS sales should rise from 4.7% in 1Q16 to 6% in 2018. On March 17, the US National Highway Traffic Safety Administration (NHTSA) reached an agreement with major automakers for mandatory AEB on their cars by 2022, two years earlier than previously scheduled. Toyota took a step further and announced on March 28 that it would install AEB on all types of cars it produces from 2017. According to the US Insurance Institute for Highway Safety (IIHS), less than 10% of new cars made in the US have AEB as a standard feature. If all cars in the US are equipped with AEB, Mando would garner W182.9bn in additional sales (sales as of 2015; ASP W1mn; low-end AEB). If the measure is applied globally, Mando could see W988.5bn in additional sales considering Hyundai Motor and Kia Motors’ US sales account for 18.5% of their global sales. The respective additional sales would equal 3.3% and 17.7% of Mando’s 2016F sales (Table 20).

**Popular for a reason:** While the key to vehicle automation is the establishment of algorithms through ECU, how to control or stop a car fundamentally depends on the mechanical role of steering and brakes. As such, a parts supplier with proven quality and competitive pricing like Mando is essential to both IT companies and automakers that are developing self-driving technology. In fact, Mando is one of eight global tier-1 parts makers that buy chips from Mobileye that features a remarkable competitive edge in ADAS and self-driving. Mando is also sharing technology and enjoying better profits on its transactions with current global partners such as Hella, Brose Fahrzeugteile (Germany) and Tesla. When vehicle automation spreads further, Mando would gain more popularity for its competitive product portfolio and technological prowess.

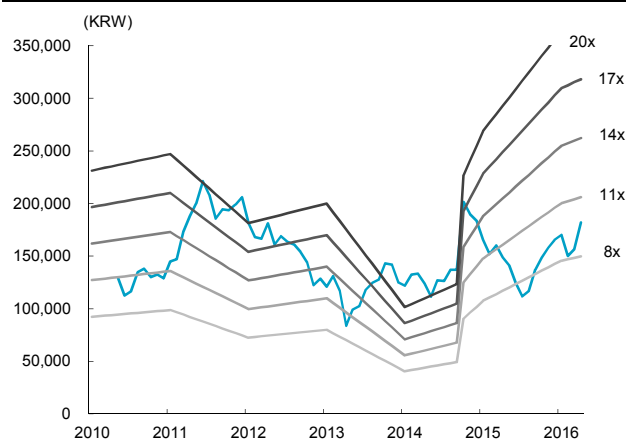
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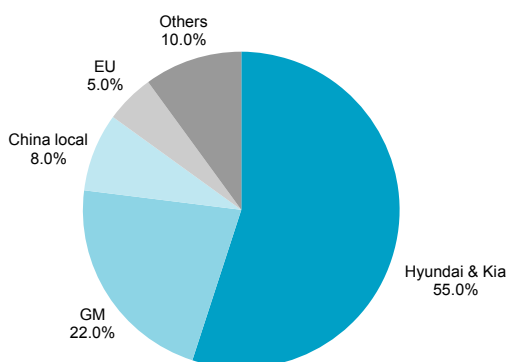
**Improvements across the board:** As China and India (Chindia) spur both top-line growth and better margins, the NP growth effect for Mando would rise to the maximum on greater equity-method gains and a stabilizing tax rate (see our report *Top line accelerates, bottom line normalizes* published April 29). Of note, Mando has established a virtuous cycle where it can improve the product mix of existing parts in emerging markets and win more orders for cutting-edge parts (ADAS and self-driving) in the developed markets. We lift our TP by 14% from W250,000 to W285,000 (15x 12MF PE) by revising our target PE from the mid-cycle 13x to 15x to reflect its competitive product portfolio and technological prowess.

**Figure 56. PE band**



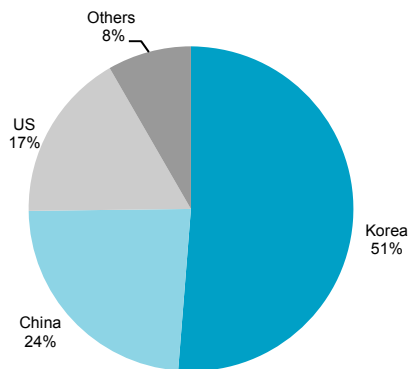
Source: Korea Investment & Securities

**Figure 57. Sales by customer (2015)**



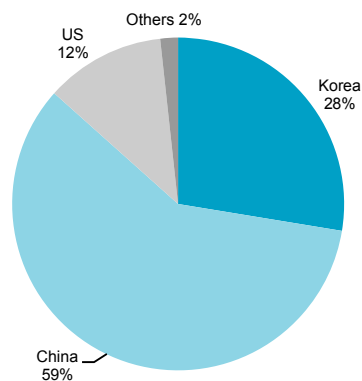
Source: Korea Investment & Securities

**Figure 58. Sales by region (2015)**

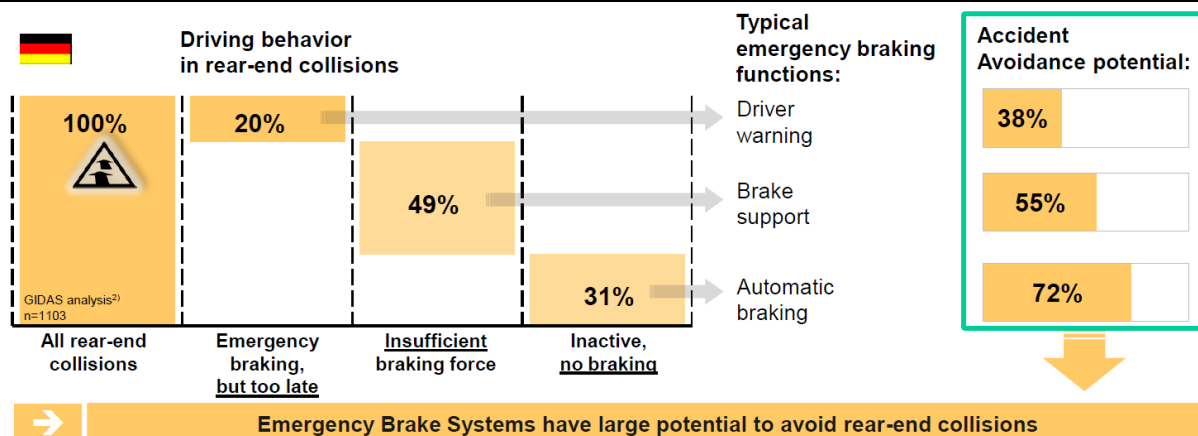


Source: Korea Investment & Securities

**Figure 59. OP by region (2015)**



Source: Korea Investment & Securities

**Figure 60. AEB can reduce the risk of rear-end collisions by 72%**

Note: Data related to Germany  
Source: Continental AG, Korea Investment & Securities

**Table 20. Mando additional sales in line with AEB installation (based on Hyundai and Kia)**

(units, W bn)

AEB supplier	US sales of cars to be equipped with AEB (2015)	Weighting in US sales	Assumed installation rate at present	Cars with no AEB	Assumed ASP ('000)	Additional sales with 100% installation in US	Additional sales relative to 2016F sales	Weighting of Hyundai/Kia US car sales in total revenue	Additional sales with 100% installation for global sales	Additional sales relative to 2016F sales
Mando	203,197	14.6%	10%	182,877	1,000	183	3.3%	18.5%	989	17.7%
Hyundai Mobis	910,292	65.6%	10%	819,263	1,000	819	2.2%	18.5%	4,428	11.7%
Uninstalled		19.8%								

Source: Korea Investment &amp; Securities

**Table 21. Tier-1 parts makers that buy chips from Mobileye**

Company	Country	Ranking in 100 global major parts makers (2013)
Magna Electronics	Canada	2
TRW Automotive	US	12
Delphi	US	13
Autoliv	Sweden	20
Calsonic	Japan	22
<b>Mando</b>	<b>Korea</b>	<b>45</b>
Leopold Kostal	Germany	76
Gentex	US	2

Note: Mobileye's chip supplies to Continental stopped due to the competitive landscape between the companies  
Source: Mobileye, Korea Investment & Securities

**Table 22. Quarterly earnings estimates**

(W bn)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16F	3Q16F	4Q16F	2015A	2016F	2017F	2018F
Sales	1,269	1,321	1,278	1,431	1,366	1,447	1,417	1,492	5,299	5,723	6,067	6,501
OP	60	66	63	77	55	76	69	81	266	282	311	343
OPM	4.7%	5.0%	4.9%	5.4%	4.1%	5.2%	4.9%	5.4%	5.0%	4.9%	5.1%	5.3%
EBT	42	56	42	61	52	59	57	66	201	234	257	286
NP	27	39	26	37	41	45	42	50	130	178	195	218
YoY												
Sales	-11%	-6%	10%	8%	8%	10%	11%	4%	-1%	8%	6%	7%
OP	-30%	-28%	5%	37%	-7%	16%	10%	5%	-9%	6%	11%	10%
NP	-57%	-20%	-46%	12%	49%	15%	61%	34%	-33%	37%	10%	11%
Margin by region												
Korea	2.3%	3.3%	0.7%	3.5%	1.4%	2.8%	2.2%	2.8%	2.5%	2.3%	2.4%	2.4%
China	10.5%	10.5%	11.4%	13.0%	10.3%	11.5%	11.0%	11.5%	11.5%	11.1%	11.0%	10.9%
US	1.8%	1.7%	7.2%	1.6%	1.5%	1.7%	1.7%	1.7%	3.2%	1.6%	1.7%	1.7%
Others	-0.4%	0.6%	1.7%	1.5%	2.5%	2.3%	2.3%	2.3%	0.9%	2.3%	2.3%	2.5%

Source: Korea Investment &amp; Securities

### **Company overview & Glossary**

Mando is Korea's most competitive auto parts company in terms of technology. After being established in 1962, Mando started commercial production of its proprietary anti-lock brake system (ABS) in 1993. However, due to the bankruptcy of Halla Group, the company was sold to SunSage in 2000 and Halla Corp. re-acquired Mando in 2008. Its global auto suppliers rank has gradually risen to reach 45th in 2014 (vs. Mobis 6th, Hyundai Wia 32nd). Mando has three plants in Korea and also operates business in China, India, Brazil, US, Europe, etc. China is a core market for the company as it accounts for 33% of total sales and 63% of total operating profit as of 4Q15.

- ADAS (advanced driver assistance systems): Developed to enhance vehicle safety
- AEB (advanced emergency braking): Monitors the relative speed and distance between the host and target vehicles; Activates the brakes without a driver's action if a collision is anticipated

**Balance sheet**

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
Current assets	1,765	1,946	2,102	2,229	2,388
Cash & cash equivalents	160	200	216	229	245
Accounts & other receivables	1,027	1,270	1,371	1,454	1,558
Inventory	325	321	347	368	394
Non-current assets	2,082	2,213	2,351	2,501	2,659
Investment assets	119	122	132	140	150
Tangible assets	1,710	1,784	1,887	2,010	2,133
Intangible assets	128	157	170	180	193
Total assets	3,846	4,160	4,453	4,730	5,047
Current liabilities	1,892	1,936	2,203	2,415	2,573
Accounts & other payables	1,117	1,201	1,297	1,375	1,474
ST debt & bonds	360	192	232	262	292
Current portion of LT debt	351	472	594	684	704
Non-current liabilities	856	858	783	733	765
Debentures	100	299	349	379	409
LT debt & financial liabilities	504	275	128	30	9
Total liabilities	2,748	2,794	2,985	3,148	3,338
Controlling interest	1,058	1,322	1,419	1,529	1,651
Capital stock	47	47	47	47	47
Capital surplus	962	962	962	962	962
Other reserves	0	199	199	199	199
Retained earnings	40	131	262	405	560
Minority interest	40	44	48	53	58
Shareholders' equity	1,098	1,366	1,467	1,582	1,709

**Cash flow**

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
C/F from operations	167	218	408	454	486
Net profit	48	130	178	195	218
Depreciation	64	198	209	224	241
Amortization	7	27	32	34	37
Net incr. in W/C	22	(216)	(44)	(30)	(45)
Others	26	79	33	31	35
C/F from investing	(189)	(249)	(415)	(448)	(473)
Capex	(131)	(270)	(317)	(352)	(368)
Decr. in fixed assets	3	5	5	5	5
Incr. in investment	(50)	75	(54)	(53)	(55)
Net incr. in intangible assets	(22)	(61)	(45)	(44)	(49)
Others	11	2	(4)	(4)	(6)
C/F from financing	2	71	23	7	3
Incr. in equity	0	0	0	0	0
Incr. in debt	8	(102)	71	59	66
Dividends	0	(19)	(45)	(42)	(47)
Others	(6)	192	(3)	(10)	(16)
C/F from others	7	(1)	0	0	0
Increase in cash	(13)	39	16	13	16

Note: K-IFRS (consolidated)

**Income statement**

FY-ending Dec. (W bn)	2014A	2015A	2016F	2017F	2018F
Sales	1,721	5,299	5,723	6,067	6,501
COGS	1,487	4,548	4,923	5,210	5,573
Gross profit	234	751	800	857	928
SG&A expenses	155	485	518	546	585
Operating profit	79	266	282	311	343
Financial income	7	19	19	19	20
Interest income	3	7	6	7	7
Financial expenses	29	66	60	62	63
Interest expenses	15	39	39	41	42
Other non-operating profit	8	(10)	(17)	(18)	(19)
Gains (Losses) in associates, subsidiaries and JV	(6)	(8)	(11)	(12)	(12)
Earnings before tax	60	201	234	257	286
Income taxes	12	72	57	62	102
Net profit	48	130	178	195	218
Net profit of controlling interest	48	126	170	190	211
Other comprehensive profit	(22)	(34)	(34)	(34)	(34)
Total comprehensive profit	26	96	144	161	184
Total comprehensive profit of controlling interest	24	91	139	157	178
EBITDA	151	490	523	570	620

**Key financial data**

FY-ending Dec.	2014A	2015A	2016F	2017F	2018F
Per-share data (KRW)					
EPS	5,071	13,433	18,203	20,248	22,535
BPS	113,193	141,318	151,678	163,381	176,368
DPS	2,000	4,800	4,500	5,000	6,000
Growth (%)					
Sales growth	(69.4)	207.8	8.0	6.0	7.1
OP growth	(74.7)	235.2	6.0	10.5	10.2
NP growth	(73.3)	164.6	35.5	11.2	11.3
EPS growth	(49.3)	164.9	35.5	11.2	11.3
EBITDA growth	(70.6)	224.5	6.7	8.9	8.9
Profitability (%)					
OP margin	4.6	5.0	4.9	5.1	5.3
NP margin	2.8	2.4	3.0	3.1	3.2
EBITDA margin	8.8	9.3	9.1	9.4	9.5
ROA	1.1	3.2	4.1	4.3	4.5
ROE	3.5	10.6	12.4	12.9	13.3
Dividend yield	1.1	2.9	2.0	2.2	2.7
Dividend payout ratio	39.4	35.7	24.7	24.7	26.6
Stability					
Net debt (W bn)	1,011	1,021	1,074	1,088	1,126
Debt/equity ratio (%)	119.9	91.5	90.0	85.3	82.2
Valuation (x)					
PE	36.2	12.3	12.4	11.2	10.0
PB	1.6	1.2	1.5	1.4	1.3
EV/EBITDA	18.3	5.3	6.2	5.7	5.3

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79.1%	19.1%	1.8%

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