

Hyundai Mipo Dockyard (010620)

12M rating **BUY (Maintain)**

12M TP **W210,000** from W210,000

Up/downside **+37%**

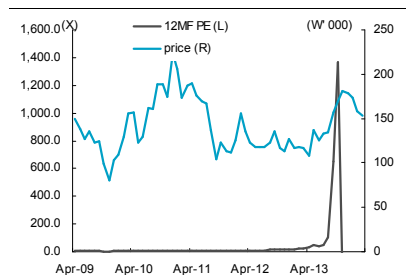
Stock Data

KOSPI (Mar 10, pt)	1,954
Stock price (Mar 10, KRW)	153,000
Market cap (USD mn)	2,869
Shares outstanding (mn)	20
52-Week high/low (KRW)	189,500/106,500
6M avg. daily turnover (USD mn)	21.1
Free float / Foreign ownership (%)	51.4/21.9
Major shareholders (%)	
Hyundai Samho Heavy Industries Co., Ltd. and 6 others	45.7
National Pension Service (NPS)	7.5

Performance

	1M	6M	12M
Absolute (%)	(6.4)	2.7	29.1
Relative to KOSPI (%p)	(8.0)	4.7	31.7

12MF PE trend



Source: WISEfn consensus

Ship prices are key

Sharp pullback on order and earnings concerns, buying opportunity

Shares have pulled back sharply in 2014 on earnings concerns following disappointing 4Q13 results and fading new order momentum YoY. However, we believe these concerns are excessive, and believe this is a buying opportunity. New order amount should decline as management shifted its strategic focus from quantity to quality. If Hyundai Mipo Dockyard (HMD)'s new order amount reaches annual sales levels, we believe newbuilding prices rather than new order amount will have a greater impact on shares. Based on YTD new order flows, HMD should secure at least USD4bn in new orders. As such, shares should pick up if the company can lift newbuilding prices backed by stable order flows. We maintain BUY with a TP of W210,000, which equates to 1.4x 12MF PB (10% premium to mid-cycle PB of 1.3x).

Focus on new order quality over amount; shares to rebound

HMD is targeting USD3.5bn in new orders this year, which is very conservative compared to the USD5.9bn in actual orders last year. With the large backlog, management is focusing on winning higher priced orders rather than quantity. Due to these efforts, OPM for recently secured product carriers (PCs) is estimated around 5%, up sharply from 18 months ago when HMD accepted loss-making orders. HMD plans to raise its PC target OPM to 10% by yearend. And contrary to concerns, order flows have also been favorable. HMD has secured USD660mn as of end-February (PC USD320mn, PCTC USD140mn, LPGC USD190mn), and should win almost USD1bn for 1Q14. Demand for core ships, such as PCs, LPGC and PCTC, remains strong, and we believe the company should easily win at least USD4bn in new orders, which would be larger than 2014 sales levels. If the backlog grows favorably, shares should surge on the climbing newbuilding prices.

Less provisions in 2H14, HMD to turn to profit in 1Q15

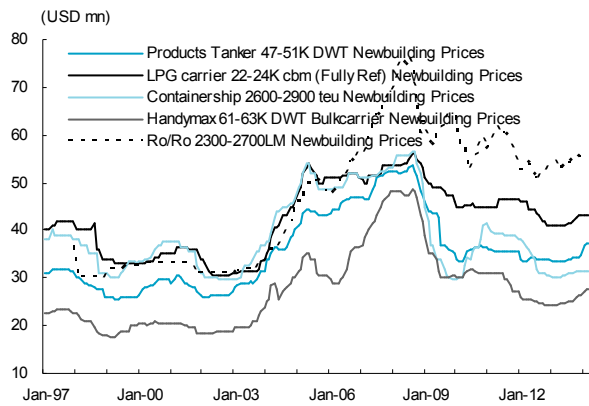
Earnings should remain weak in 1H14 as low-margin PC orders from 2012 and ships that HMD has no experience building, e.g., a juice carrier and PSV, are booked. However, earnings should pick up sharply from 2H14. Most of the new types of ships are scheduled to be delivered in 1H14, and the portion of higher margin orders secured in 2013 should pick up from 2H14. As such, we expect less provisioning in 2H14 and losses to narrow going forward. Overall, we forecast HMD will turn to an operating profit in 1Q15. Commercial ship construction is a clear-cut process for HMD and ship prices are announced when HMD secures orders. As such, earnings visibility is high, and we believe earnings will pick up going forward. Excessive concerns are not warranted given the solid backlog.

Yr to	Sales	OP	EBT	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(won)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2011A	4,624	384	315	200	10,201	(59.6)	447	11.0	4.0	0.7	5.5
2012A	4,415	93	119	97	4,928	(51.7)	159	25.8	16.7	0.8	3.0
2013A	3,986	(275)	(329)	(264)	(13,482)	NM	(208)	NM	NM	1.2	(8.7)
2014F	4,192	(121)	(94)	(74)	(3,792)	NM	(53)	NM	NM	1.1	(2.6)
2015F	4,441	171	198	149	7,591	NM	241	20.2	13.3	1.0	5.2

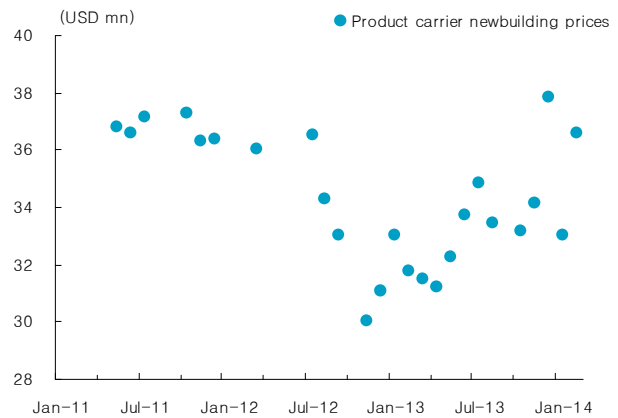
Note: Net profit and EPS are based on figures attributed to controlling interest

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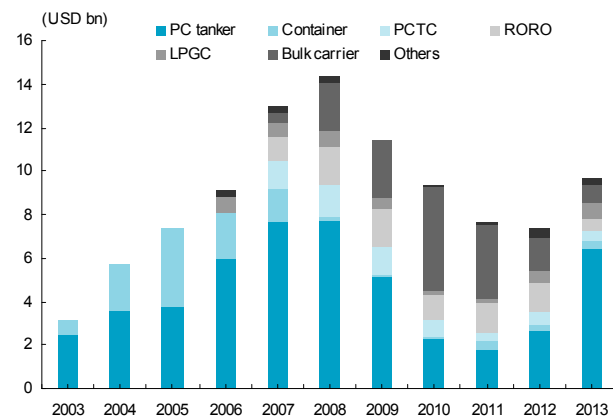
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Figure 1. Newbuilding prices for HMD building ship types

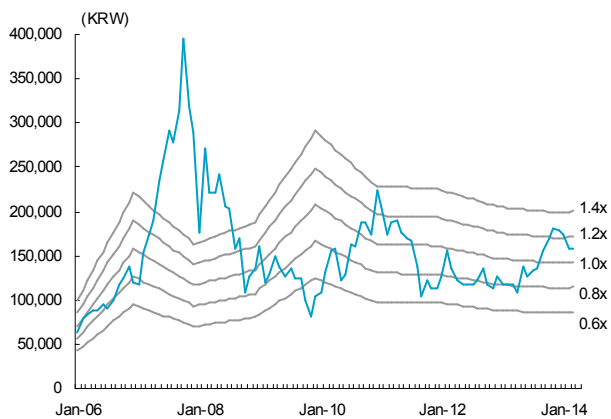
Source: Clarksons, Korea Investment & Securities

Figure 2. Monthly avg. PC newbuilding price (secured by HMD)

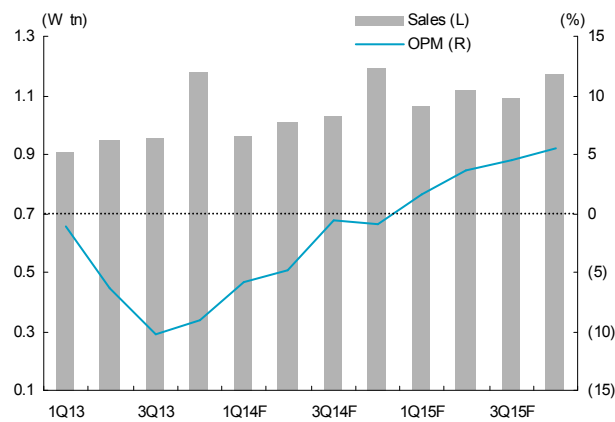
Source: HMD, Korea Investment & Securities

Figure 3. Backlog trend

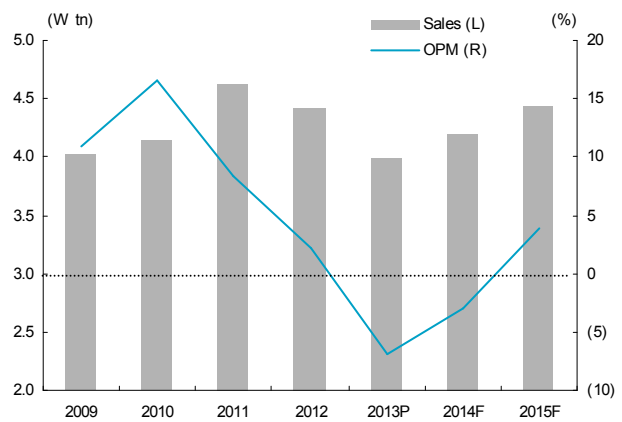
Source: HMD, Korea Investment & Securities

Figure 4. PB band chart

Source: HMD, Korea Investment & Securities

Figure 5. Quarterly earnings

Source: HMD, Korea Investment & Securities

Figure 6. Annual earnings

Source: HMD, Korea Investment & Securities

Company overview & Glossary

HMD has been acknowledged as one of the leading and most versatile shipbuilders in the sectors of medium-sized conventional ships and specialized vessels. Especially, HMD has achieved world-wide recognition for its medium-ranged product/chemical tankers and handy-panamax size containerships with optimized superior specifications and unchallenged quality gained by the competent design staff and the highly qualified workforce

- PC: Product carrier. Mainly carry refined petroleum products such as gasoline, kerosene and diesel
- PSV: Platform Supply Vessel (PSV) is a ship specially designed to supply offshore oil platforms. The primary function for most of these vessels is transportation of goods and personnel to and from offshore oil platforms and other offshore structures.

Balance sheet

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Current assets	4,133	4,169	3,866	3,940	4,175
Cash & cash equivalent	564	155	199	210	222
Accounts & other receivables	1,001	1,314	1,196	1,257	1,332
Inventory	283	187	199	210	222
Non-current assets	3,691	3,554	3,294	3,405	3,548
Investment assets	2,409	2,236	2,018	2,122	2,249
Tangible assets	889	917	914	903	896
Intangible assets	340	340	307	323	342
Total assets	7,825	7,723	7,160	7,345	7,723
Current liabilities	3,914	3,673	3,451	3,725	3,962
Accounts & other payables	2,066	1,684	1,520	1,598	1,694
ST debt & bond	1,639	1,791	1,841	1,806	1,806
Current portion of LT debt	0	0	0	0	0
Non-current liabilities	502	657	612	628	648
Debentures	0	100	100	100	100
LT debt & financial liabilities	56	134	130	126	122
Total liabilities	4,416	4,330	4,063	4,353	4,610
Controlling interest	3,217	3,183	2,890	2,786	2,905
Capital stock	100	100	100	100	100
Capital surplus	91	90	90	90	90
Capital adjustments	(70)	(70)	(70)	(70)	(70)
Retained earnings	2,081	2,136	1,843	1,739	1,858
Minority interest	191	210	207	206	208
Shareholders' equity	3,409	3,393	3,097	2,992	3,113

Cash flow

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
C/F from operating	(581)	(732)	(340)	229	368
Net profit	202	86	(267)	(75)	150
Depreciation	62	65	65	67	68
Amortization	1	2	2	2	2
Net incr. in W/C	(1,064)	(917)	(133)	232	144
Others	218	32	(7)	3	4
C/F from investing	265	22	368	(150)	(322)
CAPEX	(100)	(115)	(63)	(57)	(63)
Decr. in fixed assets	0	1	1	1	1
Incr. in investment	351	38	218	(104)	(127)
Net incr. in intangible assets	(4)	(4)	31	(18)	(21)
Others	18	102	181	28	(112)
C/F from financing	152	291	17	(68)	(33)
Incr. in equity	0	0	0	0	0
Incr. in debts	245	331	46	(39)	(4)
Dividends	(93)	(40)	(29)	(29)	(29)
Others	0	0	0	0	0
C/F from others	(4)	11	0	0	0
Increase in cash	(168)	(409)	44	10	12

Note: Based on K-IFRS (consolidated)

Income statement

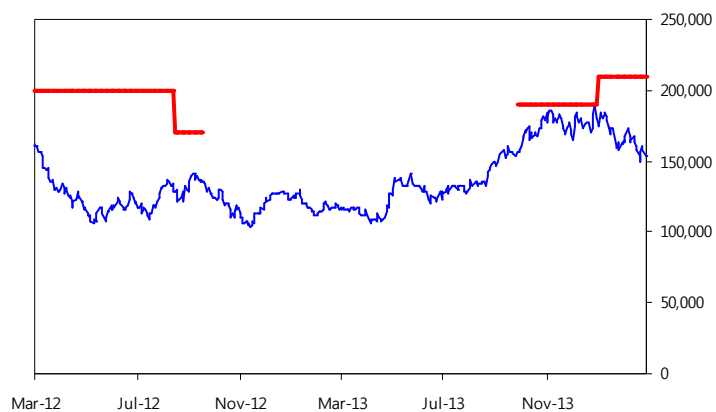
FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Sales	4,624	4,415	3,986	4,192	4,441
COGS	3,969	4,058	4,022	4,062	4,005
Gross profit	655	357	(36)	130	437
SG&A expense	271	265	239	251	266
Operating profit	384	93	(275)	(121)	171
Financial income	206	216	96	95	96
Interest income	25	11	10	9	10
Financial expense	128	55	139	56	56
Interest expense	1	3	4	4	4
Other non-operating profit	(147)	(134)	(11)	(12)	(12)
Gains (Losses) in associates, subsidiaries and JV	(0)	0	0	0	0
Earnings before tax	315	119	(329)	(94)	198
Income taxes	112	33	(63)	(19)	47
Net profit	202	86	(267)	(75)	150
Net profit of controlling interest	200	97	(264)	(74)	149
Other comprehensive profit	(1,024)	(98)	0	0	0
Total comprehensive profit	(821)	(12)	(267)	(75)	150
Total comprehensive profit of controlling interest	(823)	6	(264)	(74)	149
EBITDA	447	159	(208)	(53)	241

Key financial data

FY-ending Dec.	2011A	2012A	2013F	2014F	2015F
per share data (KRW)					
EPS	10,201	4,928	(13,482)	(3,792)	7,591
BPS	163,132	161,427	146,752	141,568	147,534
DPS	2,000	1,500	1,500	1,500	1,500
Growth (%)					
Sales growth	11.7	(4.5)	(9.7)	5.2	6.0
OP growth	(43.8)	(75.8)	NM	NM	NM
NP growth	(59.4)	(51.7)	NM	NM	NM
EPS growth	(59.6)	(51.7)	NM	NM	NM
EBITDA growth	(39.7)	(64.3)	NM	NM	NM
Profitability (%)					
OP margin	8.3	2.1	(6.9)	(2.9)	3.8
NP margin	4.3	2.2	(6.6)	(1.8)	3.3
EBITDA margin	9.7	3.6	(5.2)	(1.3)	5.4
ROA	2.3	1.1	(3.6)	(1.0)	2.0
ROE	5.5	3.0	(8.7)	(2.6)	5.2
Dividend yield	1.8	1.2	0.8	1.0	1.0
Stability					
Net debt (W bn)	(614)	(54)	129	107	(22)
Debt/equity ratio (%)	53.8	64.7	72.4	73.6	70.6
Valuation (X)					
PE	11.0	25.8	NM	NM	20.2
PB	0.7	0.8	1.2	1.1	1.0
PS	0.5	0.6	0.9	0.7	0.7
EV/EBITDA	4.0	16.7	NM	NM	13.3

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Hyundai Mipo Dockyard (010620)	06-04-12	BUY	W200,000
	08-26-12	BUY	W170,000
	09-29-12	Hold	-
	10-08-13	BUY	W190,000
	01-13-14	BUY	W210,000



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- 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: Richard Park

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