

Mando (060980)

BUY (Reinstate), TP: W184,000

Stock price (Mar 31, KRW)	135,000
Market cap (USD mn)	2,282
Shares outstanding (mn)	18
52W High/Low (KRW)	147,500/73,800
6M avg. daily turnover (USD mn)	15.5
Free float (%)	71.2
Foreign ownership (%)	10.5

Yr to	Sales	OP	EBT	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2012A	5,059	256	208	163	9,065	(26.6)	425	14.2	7.4	1.5	11.4
2013A	5,634	313	218	178	9,999	10.3	513	12.5	6.4	1.3	11.3
2014F	6,217	345	282	223	12,514	25.2	609	10.8	5.9	1.3	12.7
2015F	6,919	384	326	257	14,464	15.6	683	9.3	5.2	1.2	13.1
2016F	7,718	429	375	296	16,653	15.1	756	8.1	4.7	1.0	13.3

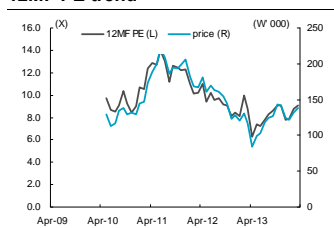
Note: NP and EPS attributed to controlling interest

Switching from construction stock to auto parts play

Performance

	1M	6M	12M
Absolute (%)	1.9	5.9	15.4
Rel. to Kospi (%p)	1.6	6.5	16.3

12MF PE trend



Reinstate coverage with TP W184,000: We reinstate coverage of Mando with BUY and a TP of W184,000 (14.0x 12MF PE). The target PE is a mid-cycle multiple and a 7% discount to the global peer average of 15.0x. Although Mando shares were discounted due to earnings erosion at parent company Halla Corp. (Halla), now is the time to focus on the value of Mando's inherent business as an auto parts maker. Given Halla's self-rescue efforts and the National Pension Service's (NPS) recent action to strengthen shareholder rights and profits, Mando's further financial support to Halla seems unlikely.

No more Halla-related discount: Mando will not likely offer additional financial support to its parent company. First, Halla sold Halla Hyhill in early March, which we believe was a successful first step toward Halla's survival. Second, Halla should benefit from the resumption of the 'corporate bond speedy purchase scheme' that allows a company to pay back only 20% of corporate bonds upon maturity and the Korea Development Bank acquires the remaining 80% and extends the maturity for two years. Third, management will find it harder to provide financial support to affiliates as the NPS, Mando's second-largest shareholder, has pursued greater shareholder rights.

1) The recent disposal of Halla Hyhill means Halla's PF contingent liabilities have reduced by 60% (W90bn of total W142bn). Accordingly, Halla's outstanding PF balance stands at only W52bn, a huge drop from W627.9bn in 2012. This demonstrates risks related to Mando's financial support to Halla have eased substantially. 2) The 'corporate bond speedy purchase scheme' was temporarily introduced in the early 2000s and resumed in July 2013. Halla's corporate bonds reaching maturity in 2014 would be subject to the scheme (total W310.8bn breaking down to W130bn in February, W100bn in April and W80bn in September). 3) The NPS rejected the appointment of Mando's CEO for his second term at the recent shareholders' meeting, citing a potential breach of shareholder rights. This suggests Mando's financial support to affiliates as seen in 2013 is unlikely in future.

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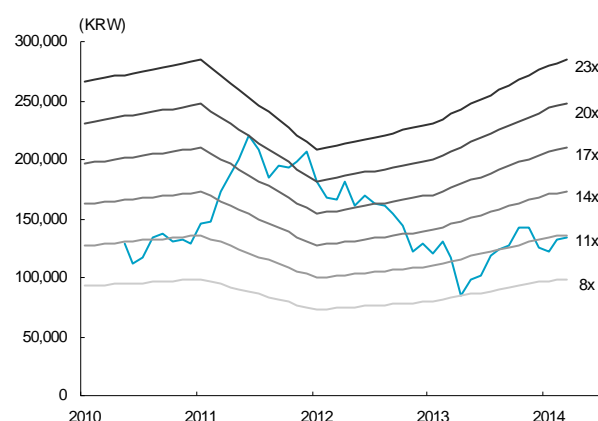
Suitable to receive a global auto parts maker's PE: We believe it is time to reevaluate Mando as a dedicated global chassis maker that is stepping away from construction risks. Mando's R&D spending-to-sales of 4.3% over the past 10 years has stayed above other parts makers and its business focus is concentrated on chassis. Backed by strong technological prowess and competitive prices, the company is broadening the customer base. Mando Ningbo, a Chinese subsidiary selling mainly to Geely, is forecast to expand sales to W700bn by 2016 (W104.4bn in 2012). It turned to an operating profit in 4Q13. Mando targets to win W300bn in orders from Great Wall Motor in 2014 following W280bn in 2013. The scheduled visit by a purchasing director from Tesla in April also raises the possibility of Mando

selling steering (R-EPS) and suspensions to the EV maker.

Margin upside: Mando's profitability should improve on the restructuring of divisions and the resumption of lucrative Iran-bound exports. Poor earnings in 4Q13 were mainly caused by losses from discontinued operations at affiliates (remanufacturing generating ₩70bn in sales at Halla Meister and golf balls with ₩10bn in sales at Mando Advanced Materials). The business withdrawal would erode consolidated sales by 1.3% but push up margins. The resumed anti-lock brake system (ABS) exports to Iran from February 2014 (quarterly sales of ₩30bn with a mid-10% OPM) would also contribute to higher margins.

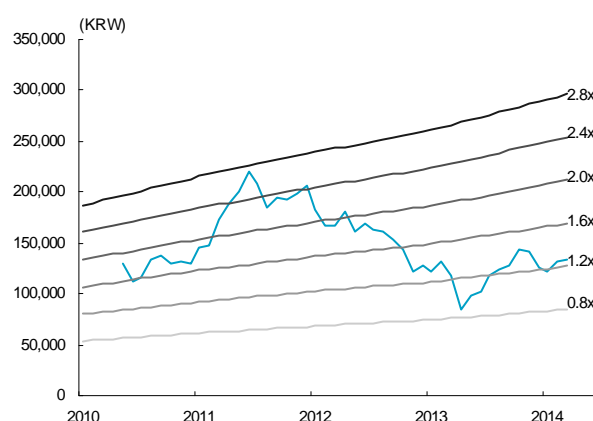
Risk factors: If management at Halla worsens, it could stoke concern about Mando's possible financial support to the parent company. But we do not believe Mando would provide the support. As such, if concern resurfaces about Halla's management, Mando shares will likely move in a J-curve. Thus, we see a buying opportunity.

Figure 40. PE band



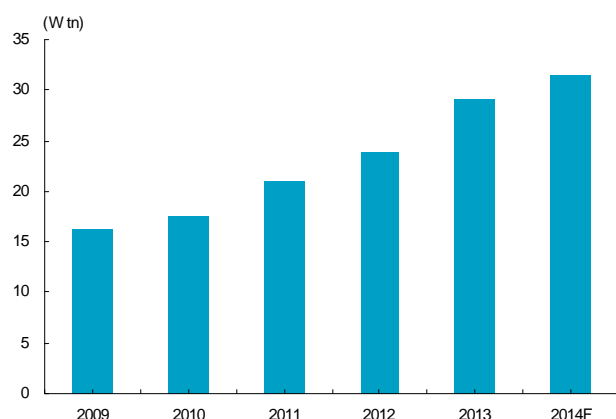
Source: Korea Investment & Securities

Figure 41. PB band



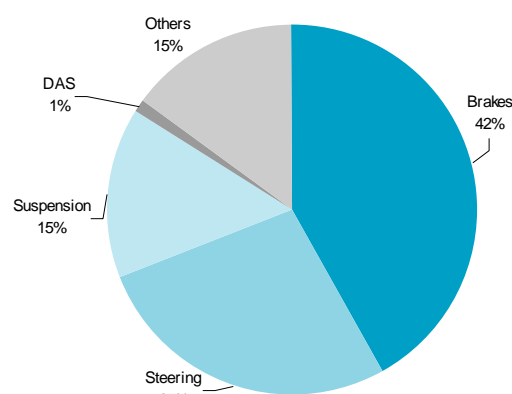
Source: Korea Investment & Securities

Figure 42. Orders value and backlogs



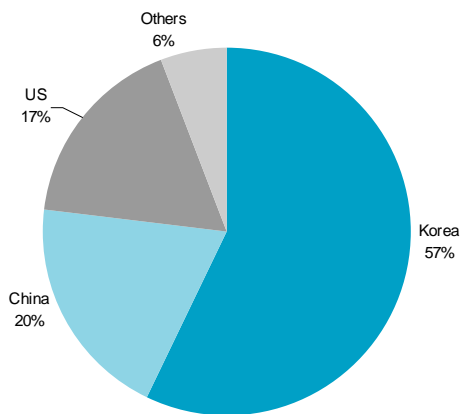
Source: Company data, Korea Investment & Securities

Figure 43. Sales breakdown by product (2013)



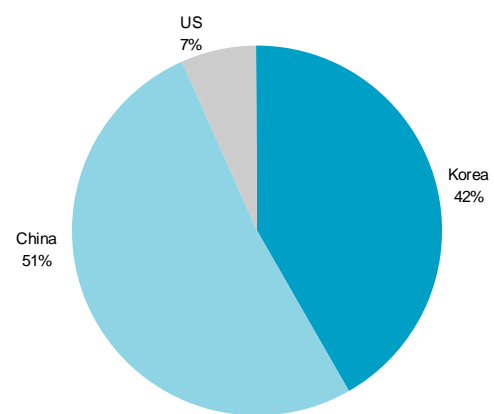
Source: Korea Investment & Securities

Figure 44. Sales breakdown by region (2013)



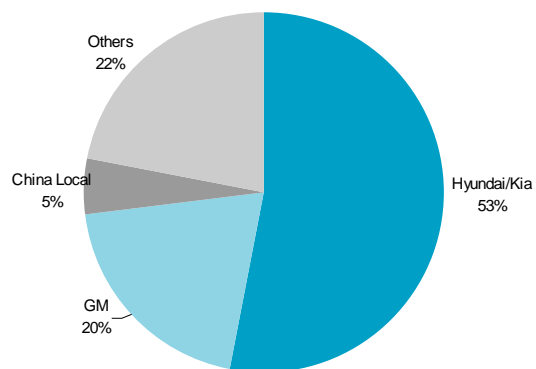
Source: Korea Investment & Securities

Figure 45. OP breakdown by region (2013)



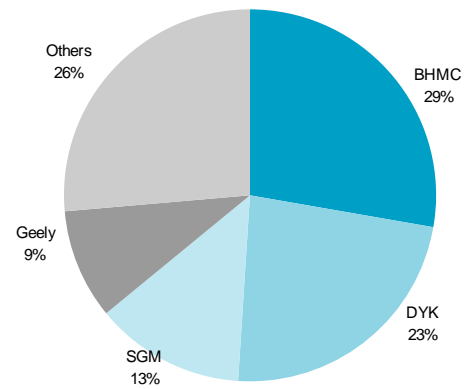
Source: Korea Investment & Securities

Figure 46. Sales breakdown by customer (global, 2013)



Source: Korea Investment & Securities

Figure 47. Sales breakdown by customer (China, 2012)



Source: Company data, Korea Investment & Securities

Table 10. Mando affiliates

(% , W bn)

	Country	Region	Business areas	Stake	2012 sales	2013 sales	YoY	2012 NP	2013 NP
Meister	Korea	Seoul	Logistics/trading (navigation, hi-pass (automatic toll-paying device))	100	660	795	21%	9	(14)
MBCO (JV with Brose in Korea)	Korea	Incheon	Electric motors	50	-	1		(9)	(13)
HSC (Halla Stackpole)	Korea	Ochang	Engine & transmission parts	70	118	132	12%	11	15
MHE (Mando Hella Electronics)	Korea	Incheon	Chassis electronics (ECU, sensor, radar)	50	209	340	63%	(3)	11
MAM (Mando Advanced Materials)	Korea			52.7	53	51	-4%	(6)	(4)
MCH (Mando China Holdings)	China			100	1,118	1,296	16%	84	117
MBC (Mando (Beijing) Automotive Chassis)	China	Beijing	Brakes (CBS), suspension	100	598				
MSC (Mando Suzhou Chassis)	China	Suzhou	Brakes (ABS), steering (CSS/EPS)	100	643				
MNC (Mando Ningbo Automotive Parts)	China	Ningbo	Brakes (CBS), suspension	65	104				
MTC (Mando Tianjin Automotive Parts)	China	Tianjin	Iron casting	100	46				
MHC (Mando Harbin Automotive Chassis)	China	Harbin	Brakes (CBS)	100	49				
Mando Shenyang Automotive Parts	China	Shenyang	Brakes (CBS), steering (EPS)	100	-				
MAIL (Mando Automotive India)	India	Chennai	Brakes (CBS), steering (EPS), suspension	74	267	255	-4%	2	(11)
MSI (Mando Soft Tech India)	India		R&D center	100	4	5	12%	0	0
MCB (Mando Corp. Brazil)	Brazil		Brakes (ABS)	100	13	68	441%	(7)	(7)
KMB (JV with KYB in Brazil)	Brazil		Suspension	50	22	22	3%	(4)	(8)
MCA (Mando America Corp.)	US	Alabama		100	958	1,044	9%	6	12
Mando Alabama plant	US	Alabama	Brakes (CBS), steering (CSS), suspension	100					
Mando Georgia plant	US	Georgia	Brakes (ABS-2013), steering (EPS-2014)	100					
Mando Georgia casting plant	US	Georgia	Iron casting	100					
MMT (Maysan Mando Otomotiv Parcalari)	Europe	Turkey		50	61	69	14%	5	4
MCE (Mando Corp. Europe GmbH)	Europe	Germany		100	18	28	52%	0	1
MCP (Mando Corp. Poland)	Europe	Poland	Brakes (CBS), suspension	100	1	24	2067%	(4)	(6)
AVM (Auto venture Mando SDN)	Malaysia			30	11	14	35%	0	1

Source: Korea Investment & Securities

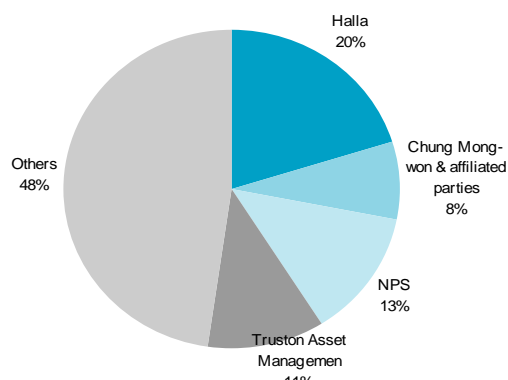
Table 11. Halla Hyhill disposal details

(W bn)

	Value	Note
Sale proceeds	340	Real estate fund arranged by KTB Asset Management
Halla's stake investment	50	
Hyundai Department Store's stake investment	40	
KCC's stake investment	40	
Secured loan	210	
Total PF debt guarantee amount	200	Halla's contingent liability worth W90bn
Unclaimed construction receivable for Halla	95	Recoup the total amount (spend W50bn for stake investment and receive W45bn in cash)

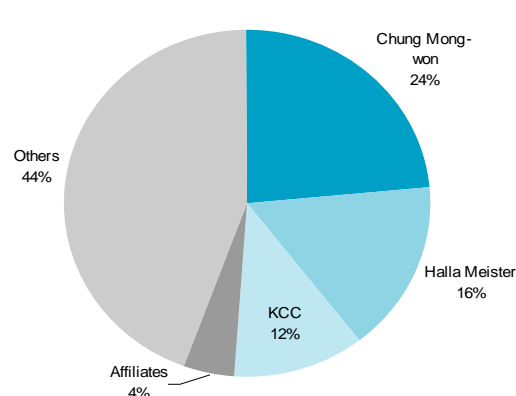
Source: Korea Investment & Securities

Figure 48. Mando ownership structure (March 2014)



Source: Korea Investment & Securities

Figure 49. Halla ownership structure (March 2014)



Source: Korea Investment & Securities

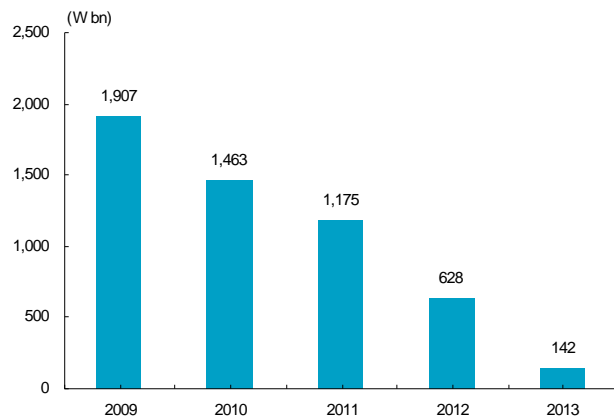
Table 12. Halla earnings and financial structure

(W bn)

	2010	2011	2012	2013
Sales	1,584	1,729	1,969	1,999
OP	116	48	-202	-251
OPM	7.3%	2.8%	-10.3%	-12.5%
NP	225	10	-229	-428
Debts	1,443	1,874	2,289	2,018
Equity	745	736	691	606
Debt ratio	194%	255%	331%	333%

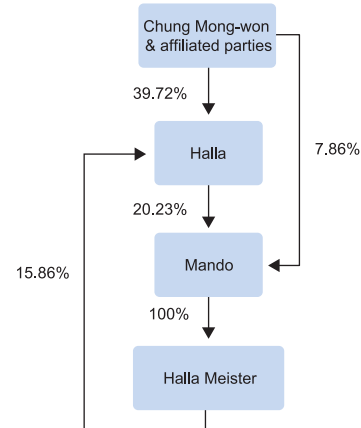
Source: Korea Investment & Securities

Figure 50. Halla PF balance



Source: Company data, Korea Investment & Securities

Figure 51. Halla core affiliate governance



Source: Korea Investment & Securities

Table 13. Quarterly earnings

(W bn)

	1Q13	2Q13	3Q13	4Q13	1Q14F	2Q14F	3Q14	4Q14F	2013	2014F	2015F	2016F
Sales	1,366	1,455	1,351	1,462	1,492	1,616	1,430	1,679	5,634	6,217	6,919	7,718
OP	82	90	71	70	90	105	83	104	313	381	432	488
OPM	6.0%	6.2%	5.3%	4.8%	6.0%	6.5%	5.8%	6.2%	5.6%	6.1%	6.2%	6.3%
EBT	88	67	43	20	66	81	59	79	218	285	329	379
NP	70	51	36	20	51	63	46	62	178	222	257	296
Sales (% YoY)									11%	10%	11%	12%
OP (% YoY)									22%	22%	13%	13%
NP (% YoY)									10%	25%	16%	15%

Source: Korea Investment & Securities

Balance sheet

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	1,936	2,484	2,508	2,791	3,113
Cash & cash equivalents	215	718	560	623	695
Accounts & other receivables	1,116	1,050	1,159	1,290	1,438
Inventory	420	417	461	513	572
Non-current assets	2,099	2,593	2,929	3,111	3,358
Investment assets	230	557	614	684	763
Tangible assets	1,664	1,785	2,037	2,119	2,251
Intangible assets	105	127	141	156	175
Total assets	4,035	5,077	5,437	5,903	6,471
Current liabilities	1,511	1,855	1,991	2,143	2,305
Accounts & other payables	1,131	1,179	1,301	1,448	1,615
ST debt & bonds	216	330	330	330	330
Current portion of LT debt	121	289	289	289	289
Non-current liabilities	956	1,504	1,528	1,608	1,742
Debentures	399	618	618	668	768
LT debt & financial liabilities	332	647	647	647	647
Total liabilities	2,467	3,358	3,519	3,751	4,047
Controlling interest	1,505	1,653	1,853	2,087	2,360
Capital stock	91	91	91	91	91
Capital surplus	240	240	240	240	240
Capital adjustments	(53)	(26)	(26)	(26)	(26)
Retained earnings	1,191	1,322	1,523	1,759	2,034
Minority interest	62	66	65	65	64
Shareholders' equity	1,567	1,719	1,918	2,152	2,424

Cash flow

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operations	153	554	441	486	527
Net profit	162	178	222	257	296
Depreciation	153	180	203	224	238
Amortization	16	20	25	27	30
Net incr. in W/C	(224)	95	(30)	(48)	(65)
Others	46	81	21	26	28
C/F from investing	(655)	(851)	(579)	(452)	(535)
Capex	(489)	(320)	(463)	(314)	(377)
Decr. in fixed assets	5	7	7	7	7
Incr. in investment	(109)	(481)	(63)	(75)	(85)
Net incr. in intangible assets	(40)	(42)	(38)	(43)	(49)
Others	(22)	(15)	(22)	(27)	(31)
C/F from financing	389	802	(20)	30	80
Incr. in equity	22	9	0	0	0
Incr. in debt	404	832	1	51	101
Dividends	(22)	(18)	(21)	(21)	(21)
Others	(15)	(21)	0	0	0
C/F from others	(9)	(1)	0	0	0
Increase in cash	(121)	504	(159)	63	72

Note: K-IFRS (consolidated)

Income statement

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	5,059	5,634	6,217	6,919	7,718
COGS	4,352	4,820	5,319	5,920	6,603
Gross profit	707	814	898	999	1,115
SG&A expenses	451	501	553	615	686
Operating profit	256	313	345	384	429
Financial income	18	26	31	30	32
Interest income	7	12	17	16	18
Financial expenses	40	69	83	84	87
Interest expenses	32	50	63	64	67
Other non-operating profit	(20)	(48)	(44)	(48)	(54)
Gains (Losses) in associates, subsidiaries and JV	(5)	(3)	(3)	(3)	(4)
Earnings before tax	208	218	282	326	375
Income taxes	46	41	52	61	70
Net profit	162	178	222	257	296
Net profit of controlling interest	163	178	223	257	296
Other comprehensive profit	8	(2)	(2)	(2)	(2)
Total comprehensive profit	171	176	221	255	294
Total comprehensive profit of controlling interest	174	177	221	256	295
EBITDA	425	513	609	683	756

Key financial data

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
Per-share data (KRW)					
EPS	9,065	9,999	12,514	14,464	16,653
BPS	85,456	93,225	104,314	117,331	132,513
DPS	1,000	1,200	1,200	1,200	1,200
Growth (%)					
Sales growth	10.9	11.4	10.4	11.3	11.5
OP growth	(14.8)	22.3	21.7	13.3	13.0
NP growth	(27.2)	9.2	25.1	15.6	15.1
EPS growth	(26.6)	10.3	25.2	15.6	15.1
EBITDA growth	(4.2)	20.6	18.6	12.2	10.6
Profitability (%)					
OP margin	5.1	5.6	6.1	6.2	6.3
NP margin	3.2	3.2	3.6	3.7	3.8
EBITDA margin	8.4	9.1	9.8	9.9	9.8
ROA	4.3	3.9	4.2	4.5	4.8
ROE	11.4	11.3	12.7	13.1	13.3
Dividend yield	0.8	1.0	0.9	0.9	0.9
Stability					
Net debt (W bn)	785	975	1,114	1,078	1,079
Debt/equity ratio (%)	68.1	109.7	98.3	90.0	84.0
Valuation (x)					
PE	14.2	12.5	10.8	9.3	8.1
PB	1.5	1.3	1.3	1.2	1.0
PS	0.5	0.4	0.4	0.4	0.3
EV/EBITDA	7.4	6.4	5.9	5.2	4.7

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