

Byucksan (007210)

Not rated

| | |
|---------------------------------|-------------|
| Stock price (Apr 4, KRW) | 3,020 |
| Market cap (USD mn) | 197 |
| Shares outstanding (mn) | 69 |
| 52W High/Low (KRW) | 3,320/1,750 |
| 6M avg. daily turnover (USD mn) | 2.2 |
| Free float (%) | 60.8 |
| Foreign ownership (%) | 5.9 |

| Yr to Dec | Sales (W bn) | OP (W bn) | EBT (W bn) | NP (W bn) | EPS (KRW) | % chg (YoY) | EBITDA (W bn) | PE (x) | EV/EBITDA (x) | PB (x) | ROE (%) |
|-----------|--------------|-----------|------------|-----------|-----------|-------------|---------------|--------|---------------|--------|---------|
| 2009A | 380 | 21 | 19 | 11 | 16 | 205.0 | 31 | 56.1 | 4.8 | 0.4 | 7.7 |
| 2010A | 331 | 20 | 26 | 20 | 30 | 92.9 | 27 | 65.3 | 6.3 | 0.9 | 13.5 |
| 2011A | 337 | 22 | 21 | 16 | 3 | (91.4) | 30 | 633.3 | 6.0 | 0.9 | 10.1 |
| 2012A | 390 | 13 | 5 | 5 | 84 | 3,106.1 | 22 | 23.4 | 9.4 | 0.9 | 3.0 |
| 2013A | 399 | 20 | 15 | 11 | 189 | 125.0 | 27 | 14.1 | 8.4 | 1.2 | 6.5 |

Greater use of structural insulation

Performance

| | 1M | 6M | 12M |
|--------------------|-----|------|------|
| Absolute (%) | 9.8 | 36.7 | 70.6 |
| Rel. to Kospi (%p) | 8.1 | 37.1 | 69.2 |

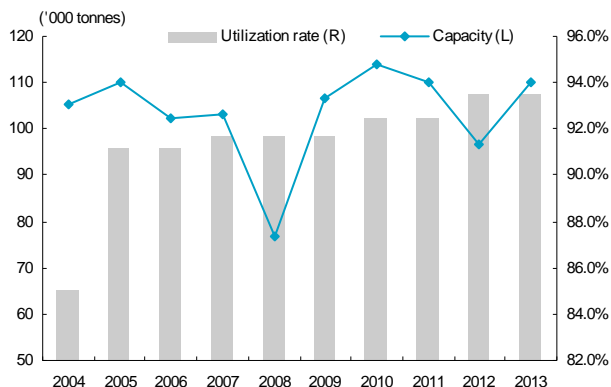
Need for mineral-based insulation: The government recently announced “Building Energy Efficiency Improvement” measures with a goal to reduce 90% of heating/cooling energy used by buildings from the level in 2009 by 2017. Insulation demand is constantly rising as 20% of heat loss can be prevented with installation. The requirement for buildings that must use flame-retardant materials in warehouses or plants was tightened from 3,000m² to 600m² at end-2013 due to a string of fires at industrial sites. The portion of mineral-based insulation was only 2% 10 years ago but is up to 15% and should grow further. The insulation market should grow 42.5% to W2.9tn if the portion of mineral insulation rises to 50% as it is double the cost of organic products. 43% of Byucksan’s sales come from insulation and of that figure, mineral insulation with higher added value accounts for 70%. Of note, as the mineral insulation market is led by only two companies, KCC and Byucksan, they would benefit most from energy regulation and consumers’ greater awareness of the need to be energy efficient.

Insulation market to grow 16% p.a. through 2017 on tighter regulation on thickness: The government has tightened regulation on insulation thickness since 2010. It almost doubled from 75mm in 2009 to 140mm and is set to go up to 255mm in 2017 and 380mm in 2025. With tighter regulation, the insulation market should grow 16.2% p.a. to W3.6tn in 2017 and W5.4tn in 2020. Although housing construction fell sharply during 2009-2011, Byucksan’s insulation sales grew 34.5% from 2009 as insulation usage increased per unit area. Accordingly, Byucksan’s utilization rate remained above 90% every year except 2008. The company may expand capacity as utilization recently exceeded 100% due to a sharp demand increase. Therefore, consolidated sales and OP should grow 14.8% and 35.7% YoY, respectively, in 2014F.

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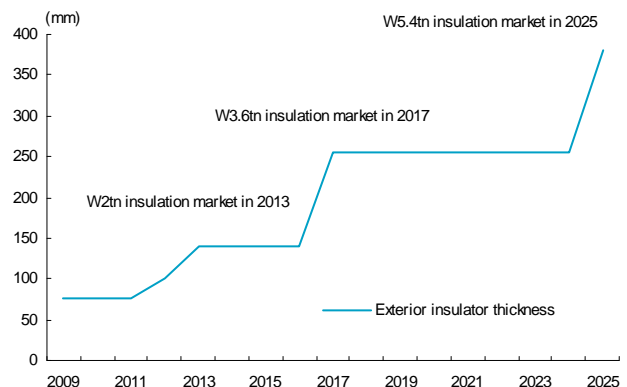
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Figure 62. Insulation production capacity and utilization



Source: Byucksan, Korea Investment & Securities

Figure 63. Insulation thickness rules and market size



Source: Ministry of Land, Infrastructure & Transport, Korea Investment & Securities

Tighter inspection of reconstruction/remodeling approval: Building damage caused by condensation from poor insulation installation is increasing. Going against the blueprints, cheap and poor-quality insulation thinner than the building code stipulates and poor supervision at construction sites were the main reasons. This was due to a lack of professional inspectors and the practice of granting approval with only documentation rather than on-site visit. However, supervision at construction sites and code approval is tightening even for residential buildings as the energy efficiency certificate program is adopted and there is more awareness of the need for eco-friendly materials and energy saving.

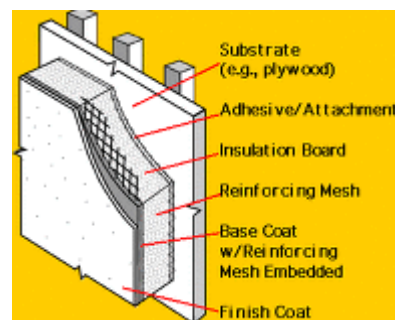
Entering exterior insulation market and leading trend: Byucksan in 2013 acquired the exterior insulation division from Hyosung for W2.4bn. Hyosung developed an energy-saving exterior insulation for the first time in Korea with a technology tie-up with US firm Dryvit in 1983. The purchase price was reasonable considering W7.7bn in sales, W3.8bn in assets and W1.7bn in liabilities. Byucksan earlier made only interior insulation and ceiling materials so this was a step to prepare for the growing exterior insulation market on tougher building energy regulation. The exterior insulation market is worth W170bn and should grow 53% to W260bn through 2017. Although exterior insulation sales are only W10bn just one year after the takeover, the figure should grow to W20bn by 2017. Byucksan will be able to faster penetrate the market than Hyosung, which had weak sales ability in construction materials, as Byucksan is already a very strong player in insulation.

Exterior insulation attaches to outer insulation materials over the structure and makes a finished coating. As outer walls are the biggest source of energy loss in buildings, complex exterior insulation systems are already widespread in many developed countries. The past method of injecting polystyrene insulation into concrete with high thermal conductivity has limitations in energy saving. Moreover, with thicker insulation used, the interior dimensions suffer. If exterior insulation is applied to outer concrete walls, the insulation effect grows more than seven-fold and energy consumption for heating or cooling is reduced 20%.

Figure 64. Byucksan's first exterior insulation project: US Eighth Army barracks Figure 65. Exterior Insulation Finishing System



Source: Company data



Source: Ministry of Land, Infrastructure and Transport, Korea Investment & Securities

Byucksan E&C entering bankruptcy, uncertainty fades: Byucksan E&C is going through bankruptcy proceedings. The major shareholder of Byucksan E&C changed from the Byucksan Group owner to creditors as Byucksan E&C entered a corporate work-out in 2012. As such, Byucksan and Byucksan E&C have no special relationship and only Byucksan, Byucksan Paint (Byucksan owns 90% shares) and Haatz (Byucksan owns 40%) are in the Byucksan Group. Byucksan already completed writing off receivables from Byucksan E&C in 2013 and the consolidated companies – Haatz and Byucksan Paint – have a respective W400mn and W1.4bn in sales receivable from Byucksan E&C. Assuming they write off all of the receivables from Byucksan E&C, the effect on Byucksan's EBT would be only W1.4bn. In addition, the operational status of Haatz and Byucksan Paint is gradually improving since 4Q13.

Byucksan trades at 12.6x 2014F PE and 9.4x 2015F PE. Considering LG Hausys and Hanssem trade at 13.3x and 20.0x 2014F PE, respectively, Byucksan's discount should narrow despite being a small/midsize company as it is a leader in the insulation market.

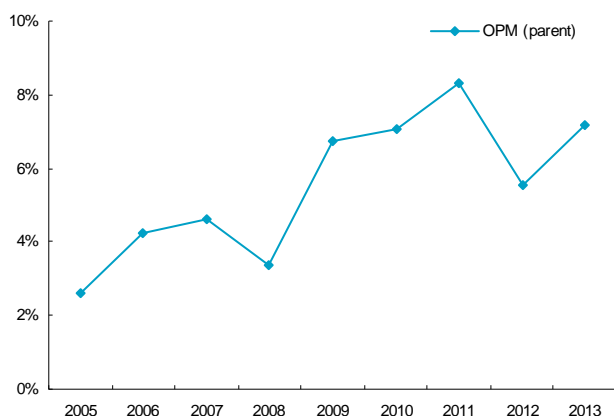
Table 22. Earnings

(W bn)

| | | 2011 | 2012 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 2013 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 2014 | 2015 | 2016 | 2017 |
|--------------------------|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total | Sales | 337 | 319 | 87 | 98 | 97 | 117 | 399 | 94 | 119 | 110 | 136 | 458 | 518 | 547 | 562 |
| | COGS ratio | 81.1% | 81.7% | 81.6% | 78.9% | 81.5% | 79.3% | 80.2% | 81.4% | 78.4% | 79.6% | 78.1% | 79.2% | 81.0% | 81.0% | 81.0% |
| | OP | 22 | 15 | 3 | 7 | 3 | 8 | 20 | 4 | 9 | 2 | 10 | 25 | 34 | 36 | 38 |
| | OPM | 6.6% | 4.7% | 3.6% | 7.1% | 2.6% | 6.6% | 5.1% | 4.3% | 7.3% | 2.1% | 7.1% | 5.4% | 6.6% | 6.6% | 6.8% |
| | EBT | 21 | 7 | 3 | 6 | 0 | 6 | 15 | 3 | 7 | 1 | 9 | 20 | 30 | 32 | 34 |
| | NP | 16 | 5 | 1 | 5 | 0 | 4 | 10 | 2 | 5 | 1 | 7 | 15 | 23 | 24 | 26 |
| 1. Byucksan | Sales | 253 | 245 | 58 | 65 | 66 | 78 | 267 | 63 | 85 | 77 | 94 | 318 | 376 | 395 | 406 |
| | OP | 21 | 14 | 4 | 7 | 2 | 6 | 19 | 4 | 9 | 2 | 8 | 23 | 31 | 33 | 35 |
| | OPM | 8.3% | 5.6% | 6.4% | 10.7% | 3.7% | 7.7% | 7.2% | 6.4% | 10.2% | 3.0% | 8.2% | 7.1% | 8.3% | 8.3% | 8.7% |
| 2. Byucksan Paint | Sales | 93.1 | 82 | 17 | 20 | 19 | 19 | 75 | 18 | 20 | 20 | 21 | 79 | 80 | 86 | 86 |
| | OP | 0.6 | 0.7 | (0) | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 |
| 3. Haatz | Sales | 0 | 0 | 14 | 15 | 15 | 22 | 66 | 15 | 16 | 16 | 23 | 70 | 72 | 76 | 79 |
| | OP | 0 | 0 | (1) | 0 | (0) | 1 | (0) | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 |
| 4. Others (consolidated) | Sales | (9) | (8) | (2) | (2) | (3) | (2) | (9) | (2) | (2) | (3) | (2) | (9) | (10) | (10) | (10) |
| | OP | 1 | 1 | 0 | (0) | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 |

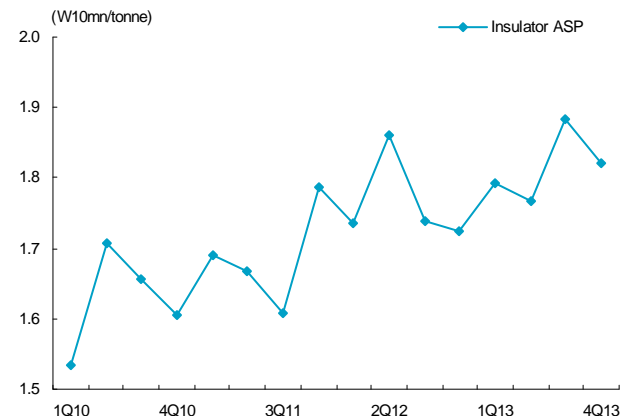
Source: Company data, Korea Investment & Securities

Figure 66. OPM (parent)



Source: Company data, Korea Investment & Securities

Figure 67. Insulation ASP



Source: Company data, Korea Investment & Securities

Balance sheet

| FY-ending Dec. (W bn) | 2009A | 2010A | 2011A | 2012A | 2013A |
|---------------------------------|-------|-------|-------|-------|-------|
| Current assets | 199 | 170 | 186 | 206 | 223 |
| Cash & cash equivalent | 36 | 44 | 41 | 49 | 69 |
| Accounts & other receivables | 116 | 104 | 107 | 103 | 106 |
| Inventory | 29 | 21 | 24 | 26 | 24 |
| Non-current assets | 179 | 157 | 154 | 180 | 176 |
| Investment assets | 12 | 50 | 49 | 12 | 10 |
| Tangible assets | 156 | 95 | 92 | 141 | 141 |
| Intangible assets | 3 | 1 | 1 | 6 | 5 |
| Total assets | 378 | 327 | 339 | 386 | 398 |
| Current liabilities | 136 | 136 | 152 | 120 | 132 |
| Accounts & other payables | 73 | 67 | 75 | 66 | 82 |
| ST debt & bond | 47 | 36 | 63 | 42 | 33 |
| Current portion of LT debt | 11 | 28 | 11 | 8 | 15 |
| Non-current liabilities | 53 | 30 | 25 | 47 | 39 |
| Debentures | 20 | 11 | 0 | 11 | 11 |
| LT debt & financial liabilities | 8 | 0 | 8 | 15 | 8 |
| Total liabilities | 189 | 165 | 177 | 166 | 171 |
| Controlling interest | 141 | 159 | 159 | 167 | 175 |
| Capital stock | 34 | 34 | 34 | 34 | 34 |
| Capital surplus | 40 | 40 | 40 | 42 | 42 |
| Capital adjustments | (2) | (2) | (17) | (17) | (17) |
| Retained earnings | 70 | 88 | 103 | 109 | 117 |
| Minority interest | 48 | 3 | 3 | 53 | 52 |
| Shareholders' equity | 189 | 162 | 162 | 220 | 227 |

Cash flow

| FY-ending Dec. (W bn) | 2009A | 2010A | 2011A | 2012A | 2013A |
|--------------------------------|-------|-------|-------|-------|-------|
| C/F from operating | 21 | 19 | 19 | 20 | 34 |
| Net profit | 14 | 20 | 16 | 3 | 10 |
| Depreciation | 10 | 7 | 7 | 9 | 6 |
| Amortization | 1 | 0 | 0 | 0 | 0 |
| Net incr. in W/C | (12) | (17) | (8) | (7) | 6 |
| Others | 8 | 9 | 4 | 15 | 12 |
| C/F from investing | (7) | 3 | (15) | (22) | (2) |
| CAPEX | (7) | (6) | (5) | (4) | (6) |
| Decr. in fixed assets | 1 | 1 | 0 | 0 | 0 |
| Incr. in investment | (1) | 14 | (10) | (17) | 4 |
| Net incr. in intangible assets | (0) | 0 | 0 | (0) | (0) |
| Others | 0 | (6) | 0 | (1) | 0 |
| C/F from financing | (4) | (7) | (7) | (1) | (12) |
| Incr. in equity | 0 | 0 | 0 | 6 | 0 |
| Incr. in debts | (2) | (5) | 8 | (6) | (10) |
| Dividends | (1) | (2) | (0) | (0) | (2) |
| Others | (1) | 0 | (15) | (1) | 0 |
| C/F from others | 0 | (0) | 0 | (0) | (0) |
| Increase in cash | 10 | 14 | (3) | (3) | 20 |

Note: Based on K-IFRS (consolidated)

Income statement

| FY-ending Dec. (W bn) | 2009A | 2010A | 2011A | 2012A | 2013A |
|--|-------|-------|-------|-------|-------|
| Sales | 380 | 331 | 337 | 390 | 399 |
| COGS | 304 | 270 | 273 | 316 | 320 |
| Gross profit | 76 | 61 | 64 | 75 | 79 |
| SG&A expense | 54 | 42 | 41 | 62 | 58 |
| Operating profit | 21 | 20 | 22 | 13 | 20 |
| Financial income | 2 | 9 | 2 | 3 | 2 |
| Interest income | 2 | 5 | 2 | 2 | 2 |
| Financial expense | 5 | 6 | 5 | 11 | 7 |
| Interest expense | 5 | 5 | 5 | 4 | 4 |
| Other non-operating profit | 1 | 0 | 1 | 0 | (1) |
| Gains (Losses) in associates, subsidiaries and JV | (1) | 4 | 1 | 0 | 0 |
| Earnings before tax | 19 | 26 | 21 | 5 | 15 |
| Income taxes | 5 | 6 | 5 | 2 | 5 |
| Net profit | 14 | 20 | 16 | 3 | 10 |
| Net profit of controlling interest | 11 | 20 | 16 | 5 | 11 |
| Other comprehensive profit | 0 | (1) | (1) | 1 | (1) |
| Total comprehensive profit | 14 | 19 | 15 | 4 | 9 |
| Total comprehensive profit of controlling interest | 11 | 19 | 15 | 6 | 10 |
| EBITDA | 31 | 27 | 30 | 22 | 27 |

Key financial data

| FY-ending Dec. | 2009A | 2010A | 2011A | 2012A | 2013A |
|-----------------------|-------|--------|--------|---------|-------|
| per share data (KRW) | | | | | |
| EPS | 16 | 30 | 3 | 84 | 189 |
| BPS | 2,024 | 2,289 | 2,073 | 2,193 | 2,313 |
| DPS | 2,500 | 0 | 0 | 130 | 56 |
| Growth (%) | | | | | |
| Sales growth | 6.0 | (12.8) | 1.7 | 15.9 | 2.3 |
| OP growth | 99.7 | (8.0) | 14.3 | (43.2) | 61.1 |
| NP growth | 204.8 | 92.9 | (20.7) | (69.2) | 125.8 |
| EPS growth | 205.0 | 92.9 | (91.4) | 3,106.1 | 125.0 |
| EBITDA growth | 45.4 | (13.7) | 9.8 | (27.1) | 23.8 |
| Profitability (%) | | | | | |
| OP margin | 5.6 | 5.9 | 6.6 | 3.3 | 5.1 |
| NP margin | 2.8 | 6.1 | 4.8 | 1.3 | 2.8 |
| EBITDA margin | 8.3 | 8.2 | 8.8 | 5.6 | 6.7 |
| ROA | 3.8 | 5.8 | 4.8 | 0.8 | 2.6 |
| ROE | 7.7 | 13.5 | 10.1 | 3.0 | 6.5 |
| Dividend yield | 278.4 | 0.0 | 0.0 | 6.6 | 2.1 |
| Stability | | | | | |
| Net debt (W bn) | 37 | 30 | 29 | 1 | (25) |
| Debt/equity ratio (%) | 46.0 | 46.3 | 50.8 | 34.9 | 29.4 |
| Valuation (X) | | | | | |
| PE | 56.1 | 65.3 | 633.3 | 23.4 | 14.1 |
| PB | 0.4 | 0.9 | 0.9 | 0.9 | 1.2 |
| PS | 0.2 | 0.4 | 0.4 | 0.3 | 0.5 |
| EV/EBITDA | 4.8 | 6.3 | 6.0 | 9.4 | 8.4 |

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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.
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