

# Kia Motors (000270)

12M rating **BUY (Maintain)**

12M TP **W78,000** from W78,000

Up/downside **+36.6%**

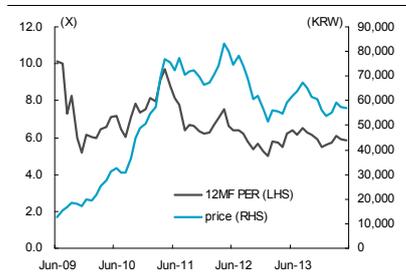
## Stock Data

KOSPI (May 13, pt)	1,983
Stock price (May 13, KRW)	57,100
Market cap (USD mn)	22,646
Shares outstanding (mn)	405
52-Week high/low (KRW)	68,900/50,300
6M avg. daily turnover (USD mn)	67.6
Free float / Foreign ownership (%)	62.9/35.8
Major shareholders (%)	
Hyundai Motor and 3 others	35.6
National Pension Service (NPS)	7.0

## Performance

	1M	6M	12M
Absolute (%)	(3.9)	(5.6)	8.8
Relative to KOSPI (%p)	(3.1)	(6.6)	7.0

## 12MF PER trend



Source: WISEfn consensus

## Three reasons for bargain-hunting chance

### All set to rebound

We maintain BUY and a 12M TP of W78,000 at 8x 12MF PE, a 10% discount to the sector average. Shares will resume picking up soon due to 1) continuing strong volume sales growth since February, 2) strengthening new model effects and 3) improving brand image. Kia Motors (Kia) trades at only 5.4x 12MF PE despite an EPS growth forecast of 10% YoY.

### 1. Solid volume growth to continue

Kia had record sales in April for a second straight month, led by the ongoing strong overseas performance. In 4M14, Kia's sales jumped 9.8% YoY to 1.05mn, well ahead of its annual growth target of 4.7%. As a result, Kia's global market share rose to 3.6% from 3.4% in 4M13. Kia beat industry growth rates in major markets in the period with the only exceptions being domestic and Brazil. Considering the strengthening new model effects and peaceful labor-management relations amid expanded production capacity, the solid growth looks sustainable.

### 2. Strengthening new model effects

Following the Soul EV released in April, the redesigned YP Carnival will arrive in Korea in June. Kia unveiled the YP at the New York Auto Show on April 18 and will display the model at the Busan Motor Show (May 29-June 8). The domestic minivan market portion to total passenger cars rebounded to 5.8% in 2013 after plunging to 2.6% in 2010 from the peak of 28.5% in 2000. The domestic SUV market portion also spiked from 18.6% in 2008 to 28.7% in 1Q14 and almost reached the previous peak of 30.6% in 2004. We forecast the YP Carnival will accelerate the recovery of the domestic minivan market from June. Of note, *The Street* awarded the Gold Medal to the YP at the New York Auto Show. The redesigned UM Sorento will hit domestic showrooms from September.

### 3. World Cup marketing effects to be greater than 2010

We believe Hyundai Motor (Hyundai) and Kia, the sole automaker sponsors of the FIFA World Cup, will enjoy great marketing effects. In particular, Kia will gain more advantage as it is the company's second sponsorship of a World Cup (Hyundai since 1999) and its brand recognition is still much less than Hyundai's. Kia's value rank in Interbrand's Best Global Brands 2013 rose to 83 from 87 in 2012, while Hyundai's jumped to 43 from 53 in the period. In addition, the still large gap in brand perception between import and domestic marques among Korean car buyers should rapidly diminish going forward thanks to the World Cup marketing.

## Sung Moon Suh

822-3276-6152  
sungmoon.suh@truefriend.com

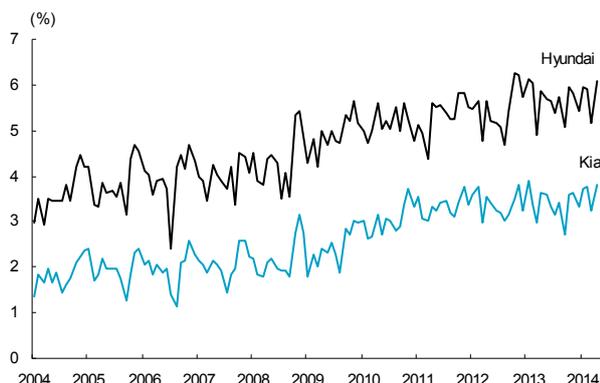
## Won Joon Choi

822-3276-5534  
wonjoon.choi@truefriend.com

Yr to	Sales	OP	EBT	NP	EPS	% chg	EBITDA	P/E	EV/EBITDA	P/B	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(won)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2012A	47,243	3,522	5,164	3,865	9,534	13.1	4,586	6.0	5.0	1.4	25.5
2013A	47,598	3,177	4,829	3,817	9,416	(1.2)	4,378	6.1	4.6	1.1	20.6
2014F	49,832	3,456	5,195	4,052	9,996	6.2	4,694	5.7	4.2	0.9	18.0
2015F	52,724	3,841	5,801	4,525	11,162	11.7	4,992	5.1	3.7	0.8	16.8
2016F	55,344	4,115	6,257	4,881	12,040	7.9	5,369	4.7	3.3	0.7	15.6

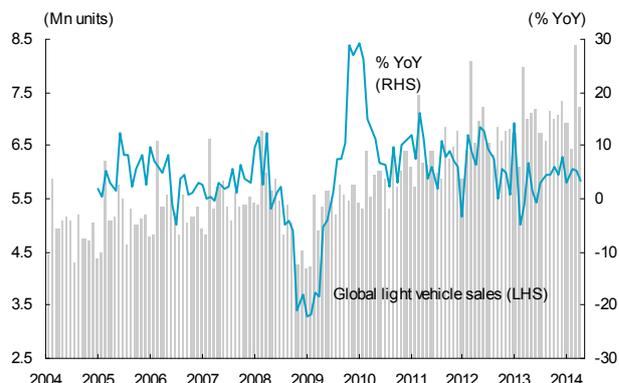
Source: Company data, Korea Investment & Securities estimates

**Figure 1. Hyundai and Kia global market shares**



Source: LMC Automotive, Korea Investment & Securities

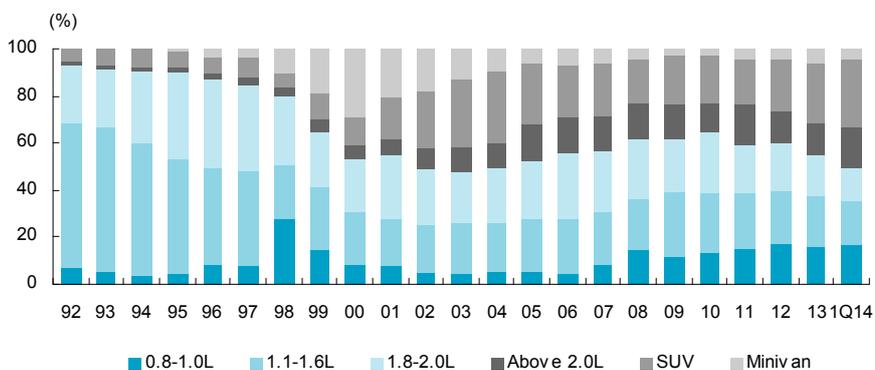
**Figure 2. Global light vehicle sales**



Source: LMC Automotive, Korea Investment & Securities

**Domestic RV market on the rise since 2011**

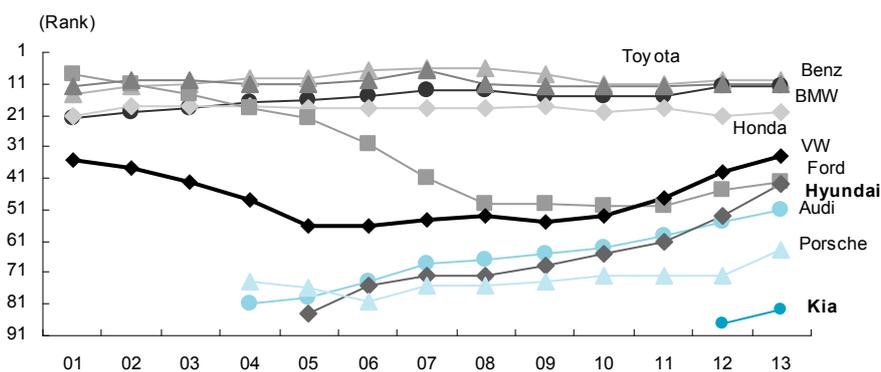
**Figure 3. Domestic sales portion by segment among Korean-made vehicles**



Source: Korea Automobile Manufacturers Association, Korea Investment & Securities

**Kia broke into the top 100 brands in 2012**

**Figure 4. Brand value rank**



Source: Interbrand, Korea Investment & Securities

**Company overview & Glossary**

Kia Motors is Korea's second-largest automaker with 2.83mn units of output in 2013. In 1999, Kia was acquired by Hyundai Motor, which owns a 33.88% stake. Kia owns a 16.88% stake in Hyundai Mobis, which has a 20.78% stake in Hyundai Motor.

**Balance Sheet**

Fiscal year ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	11,139	13,472	14,383	15,476	17,451
Cash & cash equivalent	4,271	6,347	6,600	7,475	8,160
Accounts receivable	1,802	2,073	2,400	2,600	2,720
Inventory	4,223	4,331	5,100	5,200	5,440
Non-current assets	21,259	22,710	23,281	25,987	28,221
Investments	7,876	9,198	12,481	14,287	15,980
Tangible assets	9,721	9,777	8,700	9,425	9,860
Intangible assets	1,524	1,716	2,100	2,275	2,380
Total assets	32,398	36,182	37,664	41,463	45,672
Current liabilities	10,000	10,806	9,553	9,388	9,441
Accounts payable	4,998	5,193	4,695	4,753	4,767
ST debt & bond	1,110	876	575	300	325
Current prortion of LT debt	289	759	686	694	696
Non-current liabilities	5,550	5,121	3,258	3,000	2,600
Debentures	1,521	1,082	1,512	1,500	1,360
LT debt & Lease	934	605	540	300	195
Total liabilities	15,550	15,927	12,810	12,388	12,041
Controlling interest	16,848	20,255	24,854	29,074	33,631
Capital stock	2,139	2,139	2,139	2,139	2,139
Capital surplus	1,561	1,561	1,561	1,561	1,561
Capital adjustments	485	253	1,084	1,084	1,084
Retained earnings	12,663	16,302	20,070	24,291	28,847
Minority interest	0	0	0	0	0
Shareholders' equity	16,848	20,255	24,854	29,074	33,631

**Cash Flow**

Fiscal year ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operating	4,345	4,777	4,053	5,960	5,283
Net profit	3,865	3,817	4,052	4,525	4,881
Depreciation	752	839	858	750	832
Amortization	312	362	379	401	421
Net incr. in W/C	(1,408)	(886)	(1,609)	(107)	(1,263)
Others	825	644	373	392	411
C/F from investing	(2,843)	(3,514)	(3,507)	(4,263)	(4,055)
CAPEX	(1,548)	(1,192)	(1,200)	(1,100)	(1,100)
Decr. in fixed assets	122	158	0	0	0
Incr. in investment	(1,067)	(1,322)	(3,283)	(1,806)	(1,693)
Net incr. in intangible assets	(1,027)	(1,285)	(1,445)	(1,634)	(1,716)
Others	677	127	2,421	278	453
C/F from financing	(1,810)	(791)	(293)	(822)	(542)
Incr. in equity	10	0	0	0	0
Incr. in debts	(1,549)	(93)	(440)	(506)	(78)
Dividends	(242)	(263)	(284)	(304)	(324)
Others	(29)	(435)	430	(12)	(140)
Increase in cash	(401)	408	253	875	685

Note: K-IFRS (consolidated)

Source: Company data, Korea Investment &amp; Securities estimates

**Income Statement**

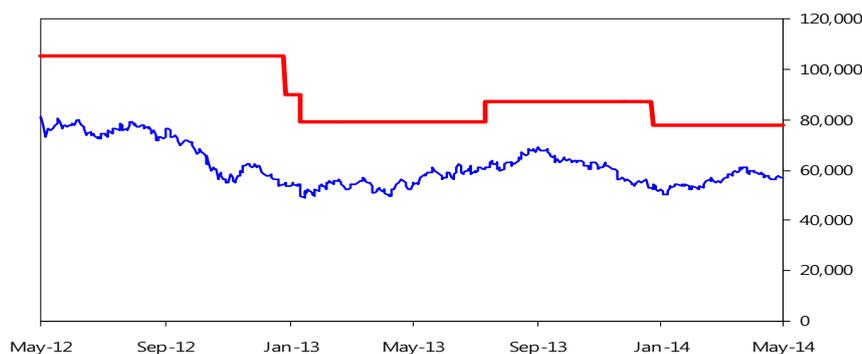
Fiscal year ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	47,243	47,598	49,832	52,724	55,344
COGS	36,536	37,512	39,185	41,339	43,286
Gross profit	10,707	10,086	10,648	11,386	12,058
SG&A expenses	7,185	6,909	7,191	7,545	7,942
Operating profit	3,522	3,177	3,456	3,841	4,115
Financial income	403	455	394	450	493
Interest income	169	173	208	245	278
Financial expenses	211	139	90	68	47
Interest expenses	157	90	55	40	18
Other non-operating profit	36	16	17	18	19
Gains (Losses) in associates, subsidiaries and JV	1,414	1,320	1,419	1,560	1,677
Earnings before tax	5,164	4,829	5,195	5,801	6,257
Income taxes	1,299	1,012	1,143	1,276	1,377
Net profit	3,865	3,817	4,052	4,525	4,881
NP of controlling interest	3,865	3,817	4,052	4,525	4,881
Other comprehensive profit	0	0	0	0	0
Total comprehensive profit	3,865	3,817	4,052	4,525	4,881
Total comprehensive profit of controlling interest	3,865	3,817	4,052	4,525	4,881
EBITDA	4,586	4,378	4,694	4,992	5,369

**Key Financial Data**

Fiscal year ending Dec.	2012A	2013A	2014F	2015F	2016F
Per-share data (won)					
EPS	9,534	9,416	9,996	11,162	12,040
BPS	41,562	49,966	61,312	71,723	82,964
DPS	650	700	750	800	850
Growth (%)					
Sales growth	9.4	0.8	4.7	5.8	5.0
OP growth	0.7	(9.8)	8.8	11.1	7.1
NP growth	9.8	(1.2)	6.2	11.7	7.9
EPS growth	13.1	(1.2)	6.2	11.7	7.9
EBITDA growth	2.1	(4.5)	7.2	6.4	7.5
Profitability (%)					
OP margin	7.5	6.7	6.9	7.3	7.4
NP margin	8.2	8.0	8.1	8.6	8.8
EBITDA margin	9.7	9.2	9.4	9.5	9.7
ROA	12.3	11.1	11.0	11.4	11.2
ROE	25.5	20.6	18.0	16.8	15.6
Dividend yield	1.0	1.0	1.1	1.2	1.3
Stability					
Net debt (W bn)	(416)	(3,025)	(3,288)	(4,681)	(5,584)
D/E ratio (%)	22.9	16.4	13.3	9.6	7.7
Valuation (x)					
PE	6.0	6.1	5.7	5.1	4.7
PB	1.4	1.1	0.9	0.8	0.7
PS	0.5	0.5	0.5	0.4	0.4
EV/EBITDA	5.0	4.6	4.2	3.7	3.3

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Kia Motors (000270)	04-09-12	BUY	W105,000
	01-09-13	BUY	W90,000
	01-25-13	BUY	W79,000
	07-26-13	BUY	W87,000
	01-06-14	BUY	W78,000



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- Hold: Expected to give a return between -15% and 15%
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Prepared by: Sung Moon Suh

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