

## S&T Motiv (064960)

12M rating **BUY (Maintain)**  
12M TP **W38,000** from W35,000  
Up/downside **+17%**

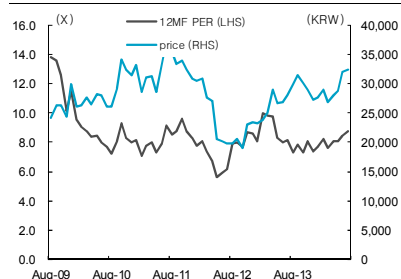
### Stock Data

KOSPI (Jul 1, pt)	1,999
Stock price (Jul 1, KRW)	32,350
Market cap (USD mn)	461
Shares outstanding (mn)	14
52-Week high/low (KRW)	32,350/25,100
6M avg. daily turnover (USD mn)	0.9
Free float / Foreign ownership (%)	51.0/6.6
Major shareholders (%)	
S&T Holdings Co Ltd and 2 others	45.8
National Pension Service (NPS)	7.3

### Performance

	1M	6M	12M
Absolute (%)	12.5	18.5	20.5
Relative to KOSPI (%)	12.3	19.1	12.8

### 12MF PE trend



Source: WISEfn consensus

## Defense and motor divisions to lead growth

### Defense sales to grow 38% YoY

Contrary to concerns early this year, earnings at S&T Motiv (S&T)'s defense division (12% of sales) should grow on strong 2H14 sales (previous estimate down 8% YoY). We attribute this to: 1) K-11 rifle output resuming by early-July, which is sooner than expected following a factory explosion in March, and 2) higher K-2 rifle demand as reserve forces upgrade older weapons. Furthermore, growing exports should lift full-year sales to W121bn, up 38% YoY.

### Evolving into a motor expert

S&T's core growth engine is motors. The sales weighting of motors has increased from 12% in 2008 to 25% in 2013, and should reach 30% by 2015. The company not only produces DCT and MDPS, which are being increasingly adopted by automakers, but also HSG and EV traction motors, which require high technological competitiveness. Specifically, S&T has supplied DCT motors to Getrag, a German transmission maker, starting in 2013 (annual sales W20bn), and S&T will begin supplying transmission oil pumps to GM North America from 3Q14 (annual sales W25bn). Moreover, S&T is supplying HSG for hybrid vehicles and EVs exclusively to Hyundai and Kia

### Sensitive to FX rates: 2Q14 earnings to be weak

Earnings are growing increasingly sensitive to FX rates as the export weighting increases and most raw materials are sourced locally. Of note, exports accounted for 72% of total sales in 2011, 76% in 2012 and 79% in 2013. Furthermore, the export weighting at S&TC, which was acquired in November 2013, is almost 80%, making S&T vulnerable to the strong KRW. As such, we expect 2Q14 consolidated earnings to be weak as the KRW appreciated 4.7% QoQ against USD at end-2Q14.

### Defense and motor sales to lift 2H14 results, shares still undervalued

We revise up our TP to W38,000 (10x 12MF PE). While we cut our target PE to 10x to reflect GM risks from our previous report, we still believe S&T is undervalued. 2Q14 NP should reach only W8.3bn given one-off gains of W12.7bn in 1Q14 and the recent FX trends. However, earnings should improve in 2H14 on strong defense sales and new motor supply orders.

#### Jin Woo Kim, CFA

822-3276-6278

jinwoo.kim@truefriend.com

#### Sung Moon Suh

822-3276-6152

sungmoon.suh@truefriend.com

#### Won Joon Choi

822-3276-5534

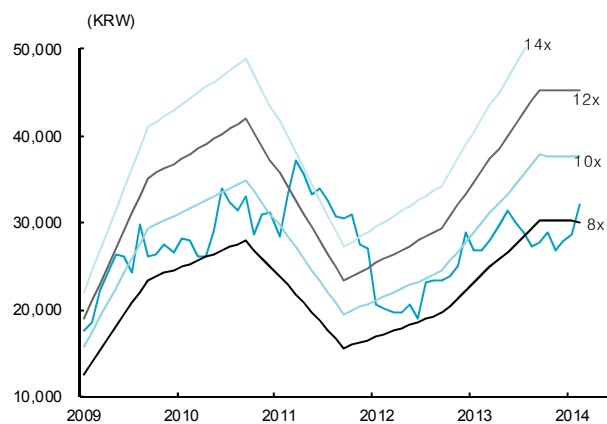
wonjoon.choi@truefriend.com

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)	(%)	(%)
2012A	905	34	22	1,942	(44.4)	58	12.1	6.1	0.7	4.9	2.1
2013A	960	52	34	2,446	26.0	77	11.2	6.1	0.8	6.9	2.2
2014F	1,088	66	54	3,776	54.4	94	8.6	5.6	0.8	9.8	1.9
2015F	1,225	77	53	3,755	(0.5)	108	8.6	4.7	0.8	9.0	1.9
2016F	1,382	88	62	4,342	15.6	122	7.5	4.0	0.7	9.6	1.9

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

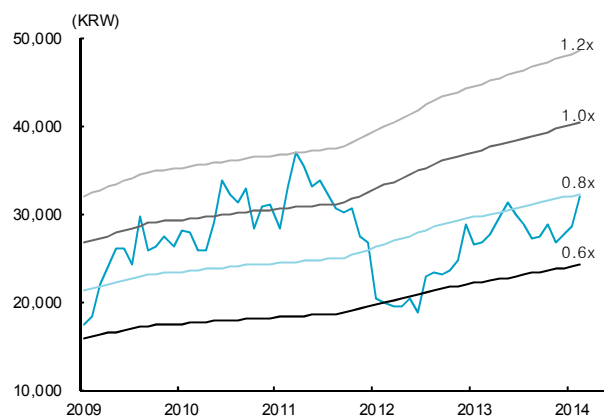
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Figure 1. PE band



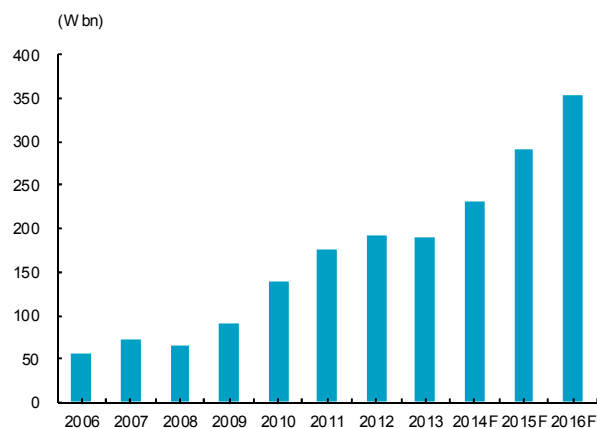
Source: Korea Investment & Securities

Figure 2. PB band



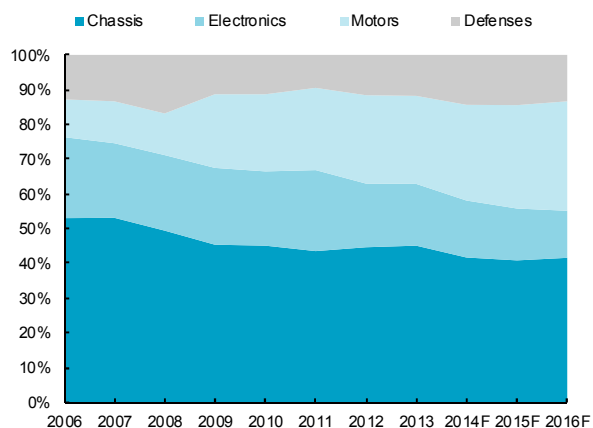
Source: Korea Investment & Securities

Figure 3. Motor sales



Source: S&T Motiv, Korea Investment & Securities

Figure 4. Sales breakdown



Source: S&T Motiv, Korea Investment & Securities

Table 1. Earnings revisions

	Previous		Revised		Chg.	
	2014F	2015F	2014F	2015F	2014F	2015F
Sales	1,089	1,202	1,088	1,225	(0.1)	1.9
OP	66	75	66	77	0.2	3.3
OPM	6.0%	6.2%	6.0%	6.3%	-	-
NP	56.4	52	53.7	53	(4.8)	3.5

Source: Korea Investment & Securities

Table 2. Quarterly earnings and key assumptions

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14F	3Q14F	4Q14F	2013	2014F	2015F	2016F
Sales	215	246	211	289	248	267	270	303	960	1,088	1,225	1,382
OP	13	15	11	13	15	15	16	20	52	66	77	88
OPM	6.0%	6.3%	5.2%	4.4%	6.1%	5.5%	6.0%	6.5%	5.4%	6.0%	6.3%	6.4%
EBT	22	8	4	7	17	11	16	14	41	58	68	79
NP	17	5	4	7	22	8	13	11	34	54	53	62
Sales (% YoY)									6%	13%	13%	13%
OP (% YoY)									51%	27%	17%	15%

NP (% YoY)

56%

59%

-1%

16%

Source: Korea Investment &amp; Securities

### Company overview & Glossary

S&T Motiv was formerly Daewoo Precision Industries, which was a spin-off from Daewoo Telecom in 2002.

In 2006, Chairman Choi Pyung-kyu acquired the company and renamed it as S&T Daewoo, and ultimately changed to S&T Motiv in 2012. In 2013 sales, auto parts accounted for 88% and defense (firearm) took up 12%. In parts sales, chassis made up 45%, followed by motors (25%), electronics (18%). S&T Motiv's major customer is GM which accounted for 53% of sales in 2013.

- DCT(Dual-Clutch Transmission): A type of semi-automatic or automated manual automotive transmission. It minimizes power loss and is easy to shift gears like automatic transmission
- MDPS(Motor-Driven Power Steering): Attach motors to facilitate handle control
- HSG(Hybrid Starter Generator): Connect engine and motor transition in hybrid vehicles
- Traction Motor: A motor responsible for EV drive. Equivalent to powertrain in gasoline vehicles. Determines EV's output

**Balance sheet**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	454	639	724	816	920
Cash & cash equivalent	60	119	135	152	171
Accounts & other receivables	218	313	354	399	450
Inventory	145	171	194	218	246
Non-current assets	441	567	591	616	642
Investment assets	2	4	4	5	5
Tangible assets	428	545	567	589	611
Intangible assets	6	11	13	14	16
Total assets	895	1,206	1,315	1,432	1,561
Current liabilities	310	436	483	535	589
Accounts & other payables	217	299	339	382	431
ST debt & bond	53	67	67	67	67
Current portion of LT debt	0	5	5	5	5
Non-current liabilities	95	110	124	140	158
Debentures	0	0	0	0	0
LT debt & financial liabilities	0	0	0	0	0
Total liabilities	405	546	608	675	747
Controlling interest	450	524	568	615	669
Capital stock	73	73	73	73	73
Capital surplus	32	36	36	36	36
Other Reserves	(12)	27	27	27	27
Retained earnings	357	388	429	471	521
Minority interest	40	137	139	142	146
Shareholders' equity	490	660	708	757	815

**Cash flow**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operating	40	41	76	81	87
Net profit	16	30	52	53	62
Depreciation	22	23	26	29	32
Amortization	1	1	2	2	2
Net incr. in W/C	(15)	(27)	(12)	(12)	(18)
Others	16	14	8	9	9
C/F from investing	(39)	1	(49)	(53)	(56)
CAPEX	(27)	(19)	(49)	(52)	(54)
Decr. in fixed assets	0	1	1	1	1
Incr. in investment	(11)	22	4	4	3
Net incr. in intangible assets	(2)	(3)	(3)	(4)	(4)
Others	1	0	(2)	(2)	(2)
C/F from financing	(5)	17	(11)	(11)	(12)
Incr. in equity	0	10	0	0	0
Incr. in debts	1	15	0	0	0
Dividends	(6)	(7)	(9)	(9)	(9)
Others	0	(1)	(2)	(2)	(3)
C/F from others	(0)	(0)	0	0	0
Increase in cash	(3)	59	16	17	19

Note: Based on K-IFRS (consolidated)

**Income statement**

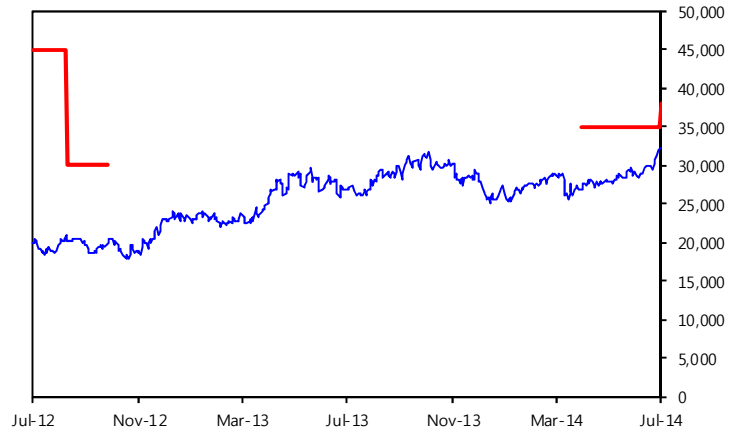
FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	905	960	1,088	1,225	1,382
COGS	807	841	946	1,063	1,197
Gross profit	98	120	142	163	185
SG&A expense	64	68	76	86	97
Operating profit	34	52	66	77	88
Financial income	8	14	14	14	15
Interest income	1	1	2	2	3
Financial expense	16	15	16	16	16
Interest expense	3	2	2	2	2
Other non-operating profit	(4)	(9)	(7)	(7)	(8)
Gains (Losses) in associates, subsidiaries and JV	0	(0)	(0)	(0)	(0)
Earnings before tax	23	41	58	68	79
Income taxes	7	11	13	15	17
Net profit	16	30	52	53	62
Net profit of controlling interest	22	34	54	53	62
Other comprehensive profit	(3)	4	4	4	4
Total comprehensive profit	13	34	56	58	66
Total comprehensive profit of controlling interest	18	38	53	55	63
EBITDA	58	77	94	108	122

**Key financial data**

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
per share data (KRW)					
EPS	1,942	2,446	3,776	3,755	4,342
BPS	31,420	36,191	39,246	42,417	46,130
DPS	500	600	600	600	600
Growth (%)					
Sales growth	(0.6)	6.1	13.3	12.7	12.8
OP growth	(1.0)	51.1	26.5	17.1	14.7
NP growth	(45.7)	55.9	59.3	(0.5)	15.6
EPS growth	(44.4)	26.0	54.4	(0.5)	15.6
EBITDA growth	1.0	32.8	22.2	15.2	13.3
Profitability (%)					
OP margin	3.8	5.4	6.0	6.3	6.4
NP margin	2.4	3.5	4.9	4.4	4.5
EBITDA margin	6.4	8.0	8.6	8.8	8.8
ROA	1.8	2.8	4.1	3.9	4.1
ROE	4.9	6.9	9.8	9.0	9.6
Dividend yield	2.1	2.2	1.9	1.9	1.9
Dividend payout ratio	31.8	23.5	14.8	15.1	12.9
Stability					
Net debt (W bn)	(17)	(56)	(73)	(92)	(113)
Debt/equity ratio (%)	10.7	11.0	10.2	9.6	8.9
Valuation (X)					
PE	12.1	11.2	8.6	8.6	7.5
PB	0.7	0.8	0.8	0.8	0.7
EV/EBITDA	6.1	6.1	5.6	4.7	4.0

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
S&T Motiv (064960)	08-10-12	BUY	W30,000
	09-28-12	Hold	-
	04-01-14	BUY	W35,000
	07-02-14	BUY	W38,000



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Prepared by: Jinwoo Kim

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