

Doosan Corp. (000150)

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In line
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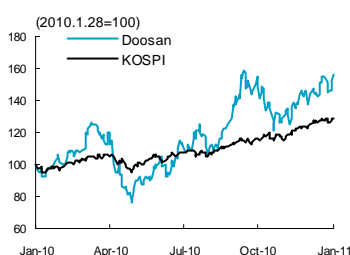
BUY (Maintain)

TP: W200,000 (Maintain)

KOSPI (Jan 28)	2,108
Stock price (Jan 28)	167,500
Shares outstanding (mn)	25.0
Market cap (USD mn)	3,766
52-Week Low/High (won)	82,100/170,000
6M avg. daily turnover (USD mn)	26.7
Free float (%)	36.8
Dividend yield (2010F, %)	1.7
Foreign ownership (%)	14.2
Major shareholders (%)	
MiRae Asset Investment Management Co.,Ltd	4.5
JF Asset Management Limited (JFAM)	4.3

Valuation	2010F	2011F	2012F
PER (x)	13.1	10.4	8.4
PBR (x)	2.3	2.1	1.8
EV/EBITDA (x)	13.3	9.7	7.6
EPS (won)	11,739	16,080	19,983
BPS (won)	68,228	78,077	90,652
Stock performance	1M	6M	12M
Absolute (%)	13.9	41.9	56.5
Relative to KOSPI (%p)	10.3	23.1	28.2

Price chart



Growing internal momentum and resolving group risk

What's new? In line with our estimates

Doosan Corp.'s 4Q10 sales and operating profit came to W489.6bn and W50.5bn, respectively, and met our estimates. Sales were up 37% YoY and operating profit slipped 16% YoY due to less equity-method gains from subsidiaries. In-house operating profit was down 53% QoQ (W18.3bn) due to margin contraction at the electro-materials division.

Pros: Continuing growth at mottrol division

The mottrol division continued to earn record profit with W16.9bn in 4Q10. We estimate the division's sales to see a two-year CAGR of 26% on the back of: 1) downstream demand growth, 2) capacity increase, and 3) new products. We believe Mottrol will continue to lead Doosan Corp.'s internal growth momentum.

Cons: Margin contraction at electro-materials division

The electro-materials division's quarterly operating profit has retreated after peaking at W35.4bn in 2Q10. The division posted W22bn/W5.2bn operating profits in 3Q/4Q10. However, we believe the division's earnings bottomed out in 4Q10 and will improve on: 1) LED TV set-makers' inventory adjustments (which led the division's margin contraction) are reaching its end, and 2) the improving product mix. The division's 2011F operating profit is W70.2bn.

Conclusion: Bobcat risk to resolve going forward

According to a news release, Doosan Infracore plans to: 1) list its Chinese subsidiary (DICC), and 2) divest its forklift division. The company expects W500bn-800bn in proceeds and the funds will be used to resolve Bobcat-related risks. We believe the group's decision is positive for Doosan Corp. as well as Doosan Infracore for the following reasons. 1) Given that Doosan Group affiliates' stock prices stand at only 43-68% of the peaks in 2007 due to Bobcat risks, the decision should lead to a revaluation for the stocks. 2) Although Doosan Corp. could participate in the acquisition of Doosan Infracore's forklift division, we do not believe it will undermine Doosan Corp.'s shareholder value since the company would buy the division at fair value as it did during the DIP Holdings acquisition.

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(Parent)	4Q10P				Change		2011F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	465.0	489.6	5.3%	500.1	4.8%	36.5%	1,934.8	1,919.6
OP	62.8	50.5	-19.6%	92.6	-19.4%	-15.5%	411.1	416.6
OP margin	13.5%	10.3%		18.5%			21.2%	21.7%
NP	45.0	60.2	33.8%	79.1	-3.4%	20.6%	366.1	347.5

(W bn, %)

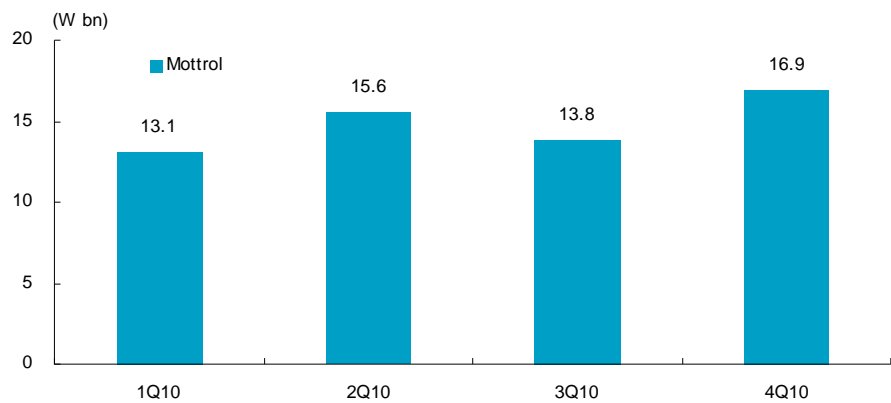
NAV calculation

(W bn, KRW, %)

Investment assets (A, W bn)	5,446	Current price
Tangible assets (B, W bn)	398	Value of real estate
Intangible assets (C, W bn)	350	Brand royalty
Operating value (D, W bn)	1,413	EV/EBITDA 7.0x
Total value (E= A+B+C+D, W bn)	7,608	
Net debt (F, W bn)	241	
NAV (G=E-F, W bn)	7,367	
Shares (H, mn)	31	Common + preferred
NAVPS (I=G/H, KRW)	239,180	
Current price (KRW)	167,500	
NAV discount (%)	30.0%	
Target price (KRW)	200,000	

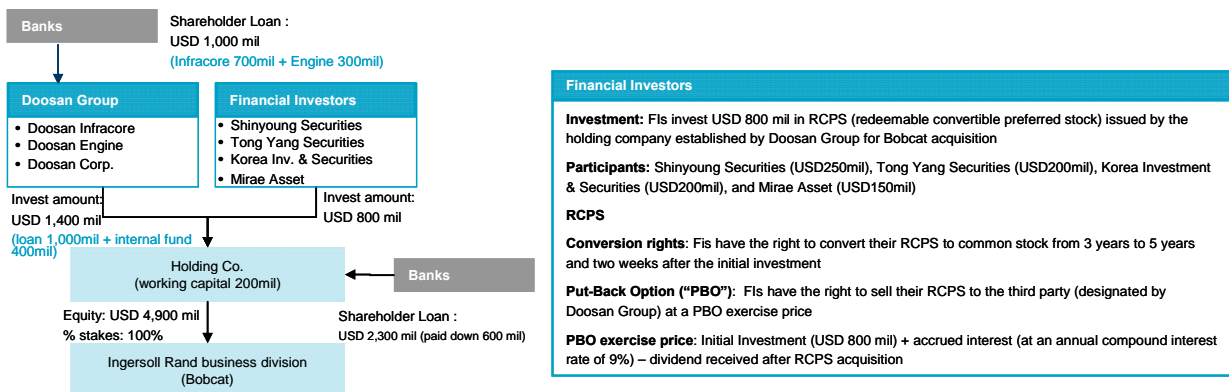
Source: Korea Investment & Securities

Mottrol division operating profit



Source: Korea Investment & Securities

Bobcat acquisition structure (November 2007)



Source: Korea Investment & Securities

Balance sheet

Fiscal year ending Dec. (W bn)	2008A	2009A	2010F	2011F	2012F
Current assets	562	497	644	715	819
Cash & cash equivalents	135	189	212	243	284
Accounts receivable	171	134	199	220	251
Inventory	161	101	137	145	164
Non-current assets	2,229	2,252	2,311	2,492	2,702
Investments	1,712	1,856	1,993	2,176	2,390
Tangible assets	452	301	301	298	294
Intangible assets	24	16	17	18	18
Total assets	2,791	2,748	2,955	3,207	3,521
Current liabilities	766	351	382	396	405
Accounts payable	126	97	133	147	168
Short-term debt and bond	113	7	6	5	3
Current portion of LT debt	333	64	57	44	27
Non-current liabilities	460	582	553	487	403
Debentures	100	249	226	176	111
LT debt and lease	81	67	59	46	28
Total liabilities	1,225	933	935	883	809
Paid-in capital	153	153	153	153	153
Capital surplus	629	693	693	693	693
Capital adjustments	(174)	(168)	(168)	(168)	(168)
Retained earnings	219	415	619	923	1,311
Shareholders' equity	1,566	1,816	2,020	2,324	2,712

Source: Company data, Korea Investment & Securities estimates

Cash flow

Fiscal year ending Dec. (W bn)	2008A	2009A	2010F	2011F	2012F
C/F from operations	116	29	83	104	132
Net profit	110	232	263	366	455
Depreciation	73	31	32	36	40
Amortization	12	10	6	5	5
Net incr. in W/C	(42)	(13)	(31)	(3)	(44)
Others	(37)	(231)	(186)	(300)	(324)
C/F from investing	96	299	39	68	75
Capex	(71)	(27)	(32)	(33)	(35)
Decr. in fixed assets	3	9	0	0	0
Net incr. in current assets	(2)	(9)	(1)	(2)	(2)
Incr. in investment	160	(236)	68	98	108
Others	6	562	5	5	5
C/F from financing	(60)	(274)	(105)	(143)	(165)
Incr. in equity	0	5	0	0	0
Incr. in debt	(33)	(237)	(41)	(78)	(100)
Dividends	0	(36)	(58)	(59)	(59)
Others	(27)	(6)	(6)	(6)	(6)
Increase in cash	132	53	17	29	42

Source: Company data, Korea Investment & Securities estimates

Income statement

Fiscal year ending Dec. (W bn)	2008A	2009A	2010F	2011F	2012F
Sales	1,501	1,203	1,755	1,935	2,213
Gross profit	477	259	687	841	994
SG&A expenses	442	297	411	429	482
Operating profit	35	(38)	276	411	512
Non-operating profit	213	51	93	97	100
Interest income	59	12	10	11	13
FX gains	46	26	24	24	24
Equity gains	13	0	0	0	0
Non-operating expenses	360	82	64	62	57
Interest expenses	51	33	23	19	14
FX losses	65	26	26	27	28
Equity losses	137	0	0	0	0
Earnings before tax	(112)	(68)	305	446	555
Income taxes	(76)	(33)	42	80	100
Profit from discontinued op.	146	268	0	0	0
Net profit	110	232	263	366	455
EBITDA	121	3	313	452	557

Source: Company data, Korea Investment & Securities estimates

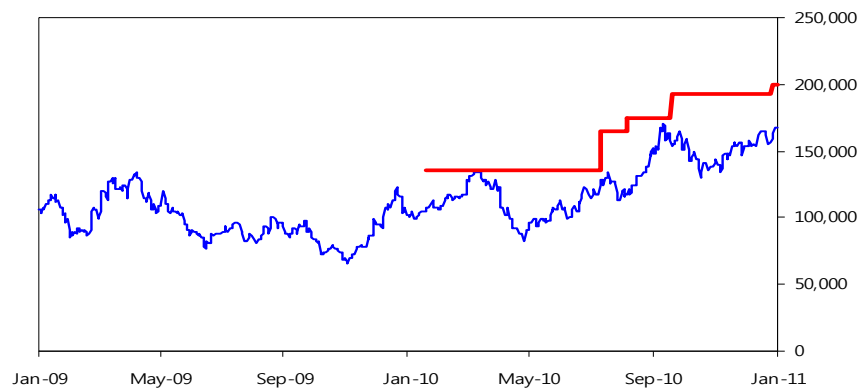
Key financial data

Fiscal year ending Dec.	2008A	2009A	2010F	2011F	2012F
Per-share data (won)					
EPS	4,739	10,006	11,739	16,080	19,983
BPS	53,682	61,966	68,228	78,077	90,652
DPS	1,000	2,500	2,650	2,850	3,000
SPS	61,955	49,234	73,777	80,149	91,618
Growth (%)					
Sales growth	(20.2)	(19.9)	45.9	10.3	14.4
OP growth	(61.7)	(207.2)	NM	49.1	24.5
NP growth	215.3	111.7	13.1	39.4	24.2
EPS growth	211.2	111.1	17.3	37.0	24.3
EBITDA growth	(39.9)	(97.8)	11,885.7	44.2	23.2
Profitability (%)					
OP margin	2.4	(3.2)	15.7	21.2	23.1
NP margin	7.3	19.3	15.0	18.9	20.5
EBITDA margin	8.0	0.2	17.9	23.4	25.2
ROA	4.4	8.4	9.2	11.9	13.5
ROE	9.7	13.7	13.7	16.9	18.1
Dividend yield	1.0	2.6	1.7	1.7	1.8
Stability					
Net debt (W bn)	489	187	123	11	(132)
Int. coverage (x)	0.7	(1.1)	12.1	21.5	37.6
D/E ratio (%)	40.1	21.4	17.2	11.6	6.2
Valuations (x)					
PER	20.4	9.5	13.1	10.4	8.4
PBR	1.8	1.5	2.3	2.1	1.8
PSR	1.6	1.9	2.1	2.1	1.8
EV/EBITDA	24.0	1,010.6	13.3	9.7	7.6

Source: Company data, Korea Investment & Securities estimates

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Doosan(000150)	02-17-10	BUY	W135,000
	08-10-10	BUY	W165,000
	09-05-10	BUY	W175,000
	10-19-10	BUY	W193,000
	01-26-11	BUY	W200,000



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- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of +15% or less

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- 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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