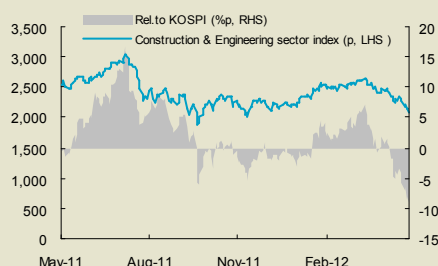


Overweight (Maintain)

Company	Rating	TP (KRW)
Samsung C&T	BUY	110,000
Hyundai E&C	BUY	118,000
Samsung Eng.	BUY	330,000
GS E&C	BUY	158,000

Sector performance(12M)



Source: WICS provided by WISEfn

SEC: Aramco of the power market

ME power plants: Stable growth market

Due to feedstock limitations, growth in the Middle East (ME) power plant market is more steady than explosive. Since the IPP system took root in the ME in 2010, the local power market has recorded stable growth on solid private investments. Meanwhile, Saudi Arabia is the largest power market in the region, but like most local nations, Saudi Arabia suffers from gas feedstock shortages. As such, Saudi Arabia will actively mix its portfolio of oil and gas power plants going forward. With gas output ramping up at the Karan field, Saudi Arabia has secured enough feedstock to tender three additional gas power plants. Strong power demand should not only catalyze more power plant tenders, but also more oil and gas upstream plants to secure feedstock. Concerns over the volatility of the downstream market, which accounts for only 16% of the 2012F ME plant market, should not erode potential in the energy and power plant markets. These markets not only make up 64% of the regional plant market, but also record high execution rates.

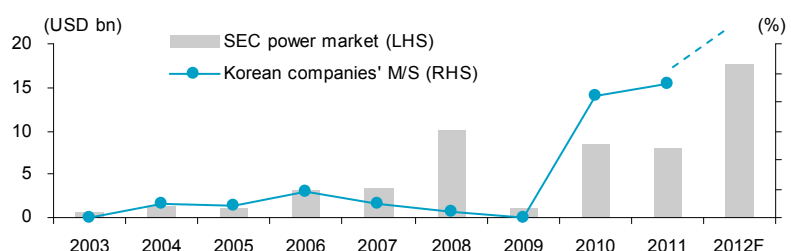
SEC: Aramco of the power market

Saudi Electricity Company (SEC) is the largest player in the Saudi power market, with 79% of total power capacity. With high credibility, large coffers and strong government support, SEC can be considered the Aramco of the power market. Pre-qualifying for SEC power projects is not easy, but most major Korean builders have succeeded in the process. SEC tenders will pick up from 2Q12F starting with the PP12 power project, and SEC plans to tender USD12bn in projects p.a. until 2021. Of note, Aramco's average annual tender volume over the past three years was USD15bn. Korea's share in the SEC power market was only 9% in 2006, but the share surged to 46% in 2011. If the share climbs to 50% in 2012F, major builders' overseas power plant orders can grow 52% YoY.

Korean builders gain share in SEC power market

Currently, Samsung C&T (C&T) and Hyundai E&C have received the most orders from SEC among peers. Daelim is a strong player in the SEC market as well. GS E&C also recently entered the market after being selected as the lowest bidder for the PP12 project. C&T received an order for SEC's major IPP Qurayyah in 2011, and the project lowered the funding rate by 75bps relative to the previous IPP project on US EXIM and Islamic funding. As financial costs typically make up 17% of total power plant project costs and ~30% of future SEC projects will be IPPs, the importance of financing capability will grow going forward. Given the strong growth outlook for infrastructure and energy markets, we maintain C&T and Hyundai E&C as our top picks, and Samsung Eng as a second favorite. GS E&C, which is currently expanding into the power plant market, also deserves attention.

Major Korean companies' share in SEC power plant market



Source: MEED projects, ICAK, Korea Investment & Securities

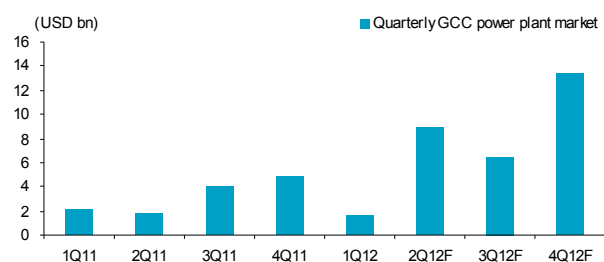
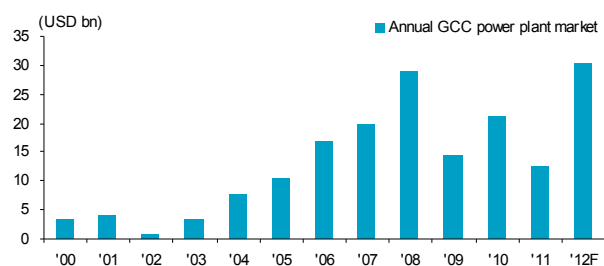
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ME power plants: Stable growth market

Power plants are the most important infrastructure in the Middle East (ME). And due to feedstock limitations, growth in the power plant market is more steady than explosive. Since the IPP system took root in the ME in 2010, the local power market has recorded stable growth on solid private investments regardless of macro volatility. Meanwhile, Saudi Arabia is the largest power market in the region. In fact, 22% of new overseas power plant orders at Korea's major builders are from Saudi Arabia (YTD basis). Given the relatively quicker tender process and higher visibility compared to other emerging markets, the ME power plant market, particularly Saudi Arabia, should lead the power plant market going forward. In particular, Saudi Arabia's greatest power client, SEC, will start tendering more projects from 2Q12F, starting with the PP12 project.

GCC power plant market



Note: Excl. UAE nuclear power project
Source: MEED projects, Korea Investment & Securities

SEC is the Aramco of the power market

Major power clients in Saudi Arabia are SEC and Saline Water Conversion Corporation (SWCC), accounting for 79% and 10% of nationwide power capacity, respectively. SEC has strong financials, having received an 'AA-' rating from Fitch Ratings in Mar 2012, and the company can be considered as the Aramco of the power plant market. Backed by the strong position, SEC's first-ever international sukuk

issue of USD1.75bn was oversubscribed recently. Also, the Saudi government decided to provide USD13.5bn in interest-free loans to SEC in 2011. With the strong government support, SEC is the single largest power company in the ME. Accordingly, pre-qualifying for SEC projects is difficult.

Saudi Arabia's power capacity breakdown (MW)

Provider	No. of plants	Capacity
SEC	50	40,366
SWCC	12	5,135
Shuaibah Water & Power Co	1	1,191
Saudi Aramco	6	1,018
Others	10	3,485
Total	79	51,195

Source: ECRA, Korea Investment & Securities

Extract from SEC's contractor handbook

"SEC may, at its discretion, include in the bid slate those existing contractors for the same types of work without undergoing the prequalification process, provided that they have no record of unsatisfactory performance"

Source: SEC, Korea Investment & Securities

However, most major Korean builders have pre-qualified for SEC projects, and pushing aggressively to win final awards. SEC plans to invest USD120bn in power projects between 2012-2021F, equivalent to USD12bn in power tenders p.a. (or more than six new plants p.a.). This is around two times more than SEC's average annual tender volume over the past three years. Of note, the largest ME oil client Aramco's average annual tender volume over the past three years was USD15bn. SEC plans to tender ~30% of its projects in IPPs.

SEC's financial summary (SAR mn, %)

	2007	2008	2009	2010	2011	2012F
Sales	20,979	22,289	23,851	27,860	30,570	33,153
YoY	6.5	6.2	7.0	16.8	9.7	8.4
OP	1,255	764	812	1,806	1,806	2,060
YoY	8.7	(39.1)	6.3	122.4	0.0	14.0
OPM	6.0	3.4	3.4	6.5	5.9	6.2
NP	1,553	1,104	1,170	2,279	2,213	2,257
YoY	9.8	(28.9)	5.9	94.9	(2.9)	2.0
NP	7.4	5.0	4.9	8.2	7.2	6.8

Note: 2012F numbers are Bloomberg consensus
Source: Bloomberg, Korea Investment & Securities

SEC's sukuk issues (USD mn)

Sukuk name	Amount	Subscription
Saudi Electricity Global Sukuk (Tranche 2)	1,250	Mar-12
Saudi Electricity Global Sukuk (Tranche 1)	500	Mar-12
Saudi Electricity Company Sukuk III	500	May-10
Saudi Electricity Company Sukuk II	500	Jul-09
Saudi Electricity Company Sukuk	360	Jul-07

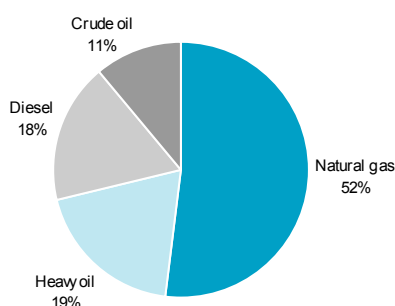
Source: Zawya, Korea Investment & Securities

Check 1) Feedstock: Mix of oil & gas

Securing feedstock is an important component in planning power projects. Saudi's long-term goal is to expand the portion of power plants fueled by gas and renewable energy. Like most other ME nations except Qatar, Saudi Arabia suffers from gas feedstock shortages. As such, quick expansion of gas-fired power plants is unviable. Over the near term, Saudi Arabia will monitor the country's gas supply changes, and appropriately mix oil and gas feedstock for new power plant constructions going forward. In 2012F, SEC plans to tender not only gas-fired power plants, such as PP12 and Jizan, but also several oil-fired plants, such as Jeddah and Shuqaiq. Of note, C&T's Qurayyah IPP project in 2011 experienced delays in final contract awards until feedstock supplier Aramco secured enough gas for the plant.

Production at the Karan gas field, Aramco's first non-associated offshore gas development, is expected to grow from 400 mcf/d in 2011 to 1,500 mcf/d in Jun-2012. Around 75% of the new production is planned to be used as gas feedstock for power plants. Given a typical 2,000MW gas-fired power plant requires 300 mcf/d of gas feedstock (0.15 mcf/d per 1MW), the increased output at the Karan field can fuel an additional 5,500MW. This is equivalent to two to three large gas power plants, or ~USD6bn worth of power projects. With the gas feedstock increase, Saudi Arabia plans to tender PP12 and Jizan gas-fired power plants in 2012F. New power plants in turn should lead to more gas development projects going forward.

Saudi Arabian power capacity by fuel



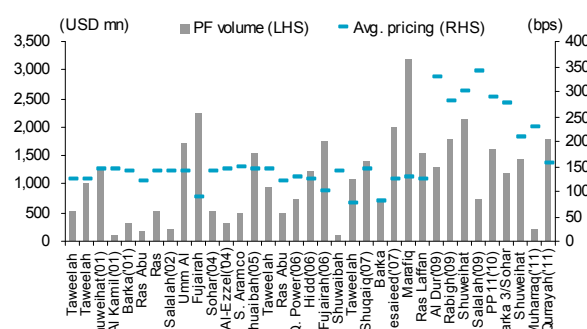
Source: Economic Consulting Associates, Korea Investment & Securities

Check 2) Financing

ME IPP financing rates soared in 2009-2010 after the global financial crisis, but have been gradually falling since 2011. Last year's Qurayyah IPP, which C&T is participating as both developer and EPC provider, closed financing at a rate 75bps lower than that of the

previous Muharraq IPP in the same year. The lower financing rate was not only due to improved financial environment, but also C&T's strength in financing arrangements. C&T successfully lowered rates for Qurayyah by utilizing the US EXIM bank and Islamic funding (sukuk). By lowering financial costs, C&T could secure better EPC margins. Going forward, financing capability will play a deciding role in winning IPP projects, in our view.

PF volume and financing rates at ME IPP projects

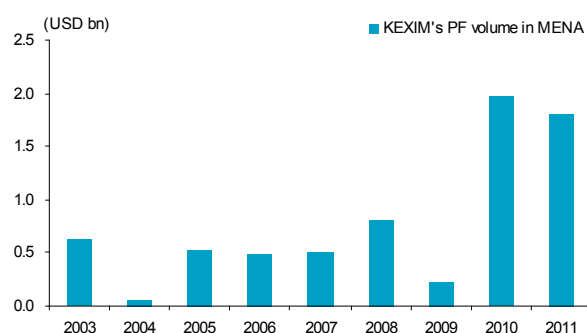


Source: MEED, Korea Investment & Securities

Korean ECAs' growing presence

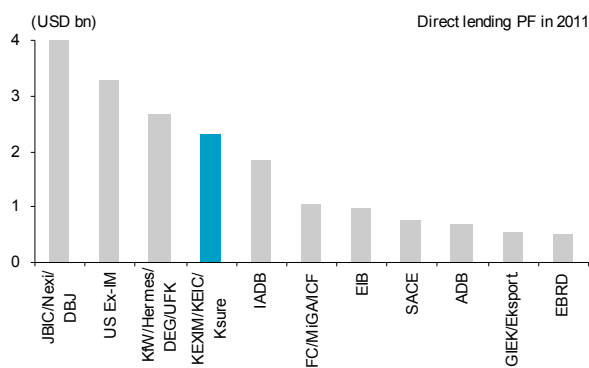
On Apr 25, major ME clients, such as SEC, Aramco, and ADNOC, participated in the 'KEXIM-MENA Conference' in Seoul. At the conference, the Korean government announced plans to expand financial support for Korean builders in the ME. ME clients also asked KEXIM (an ECA) for greater support, and made clear that builders need to accumulate financing arrangement capability to be successful in ME projects that are growing in size. KEXIM's PF in MENA amounted to only USD220mn in 2009, but soared to USD1.8bn in 2011. Globally, Korea ranks fourth in terms of total ECA PF value. The strong ECA support will boost Korean builders' chances of winning orders going forward.

KEXIM's annual PF volume in MENA



Source: KEXIM, Korea Investment & Securities

Total ECA PF by country



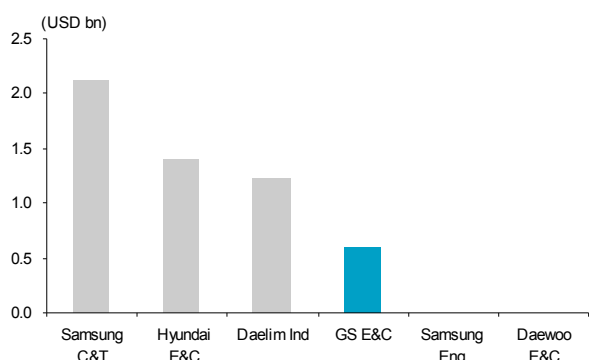
Source: PFI, Korea Investment & Securities

Korean builders gain share in SEC power market

Among the major Korean builders, C&T and Hyundai E&C received the most orders from SEC. In particular, C&T is well positioned to securing additional SEC IPP orders after winning SEC's Qurayyah IPP order in 2011. As SEC plans to tender ~30% of its future power projects as IPPs, C&T should see more opportunities going forward, being the only major builder with competitiveness in both EPC and development. As such, we maintain C&T and Hyundai E&C as our top picks.

Daelim Ind is also a strong player in the SEC power market. GS E&C was also recently selected as the lowest bidder for the SEC PP 12 project, adding SEC to its client base. While the SEC market is difficult to penetrate, likelihood of winning additional orders grows after the first order is secured.

Cumulated orders from SEC (post-2000)

Note: Incl. GS E&C's recent lowest-bidder project PP 12
Source: ICAK, Korea Investment & Securities

Accounting for ~26% of the total ME plant market, the power plant market should continue to provide stable new order volume for Korean builders equipped with EPC price and financing competitiveness. As Korean builders are growing in size, exposure to stable markets, such as infrastructure and energy, is becoming increasingly important. We recommend a positive approach to Korean builders that are gaining share in the SEC power market, which is positioned to post strong mid- to long-term growth.

Major SEC power projects in 2012F

(MW)

Plant	Capacity	Fuel	Status
PP 12	1,800	Gas	GS E&C expected to win
Jeddah South	2,400~2,640	Oil	Bidding closed on Apr 17
Shuqaiq	2,400	Oil	ITB issue in end-May
Jizan	2,600	Gas	Award in end-2012
Rabigh IPP 2	1,800	Heavy Oil	Award in end-2012

Source: SEC, Korea Investment & securities

Major ME power projects in 2012F

(USD bn)

Country	Project	Value
Saudi	SEC - Jeddah South Power Plant	5.2
Qatar	KAHRAMAA - Ras Laffan IWPP Expansion	3.0
Saudi	SEC - Jizan Refinery Power Plant	2.5
Saudi	SEC - Shuqaiq Power Plant	2.0
Saudi	SEC - PP12 Combined Cycle Power Plant	2.0
Bahrain	MOF - Addur 2 IPP	2.0
Saudi	SEC - Rabigh 2 IPP	1.8
Saudi	Saudi Aramco- New ISPP	1.0
Qatar	KAHRAMAA - Qatar Transmission Phase XI: Stage I	0.4

Source: MEED projects, Korea Investment & Securities

Valuations

		Samsung C&T	Hyundai E&C	Samsung Eng	GS E&C	Daelim Ind	Daewoo E&C	Hyundai Dev
Sales (W bn)	2010A	17,756	11,378	5,219	8,420	7,438	6,713	3,590
	2011A	21,546	11,920	9,298	9,052	7,988	7,020	4,108
	2012F	34,220	13,718	11,428	9,901	10,302	7,902	3,664
	2013F	36,262	15,693	13,007	10,824	12,341	9,519	4,665
	2014F	38,866	17,518	14,991	11,772	13,752	10,841	5,049
OP (W bn)	2010A	632	723	433	633	313	(991)	244
	2011A	597	754	717	598	516	332	403
	2012F	755	863	830	535	718	406	303
	2013F	809	1,051	973	689	862	586	386
	2014F	920	1,188	1,162	718	939	730	394
EBT (W bn)	2010A	679	750	471	556	460	(1,152)	160
	2011A	610	851	687	564	519	210	295
	2012F	839	850	824	545	631	364	273
	2013F	956	1,019	1,003	713	791	559	391
	2014F	1,098	1,165	1,183	758	925	718	397
NP (W bn)	2010A	497	547	355	406	358	(828)	97
	2011A	409	685	515	427	380	174	225
	2012F	604	644	621	413	479	276	205
	2013F	689	772	756	540	600	424	293
	2014F	790	883	891	575	701	544	298
PER (x)	2010A	23.9	15.7	20.3	14.4	13.6	NM	25.7
	2011A	25.0	12.3	14.5	10.8	9.5	24.4	5.6
	2012F	18.2	12.2	11.0	9.3	7.7	12.9	7.5
	2013F	16.0	10.2	9.1	7.1	6.2	8.4	5.3
	2014F	13.9	8.9	7.7	6.7	5.3	6.5	5.2
PBR (x)	2010A	1.4	2.1	6.0	1.6	1.1	1.6	1.1
	2011A	1.1	1.9	4.9	1.2	0.8	1.3	0.5
	2012F	1.1	1.6	3.6	1.0	0.7	1.0	0.6
	2013F	1.0	1.5	2.8	0.9	0.7	1.0	0.5
	2014F	0.9	1.3	2.3	0.8	0.6	0.9	0.5
ROE (%)	2010A	6.1	15.0	40.4	11.6	8.4	(26.1)	4.4
	2011A	4.5	15.8	43.9	11.6	8.5	5.3	9.5
	2012F	6.0	13.7	39.6	10.5	10.0	8.3	8.2
	2013F	6.2	15.0	36.9	12.6	11.5	12.0	10.9
	2014F	6.4	15.6	33.7	12.1	12.2	14.1	10.2

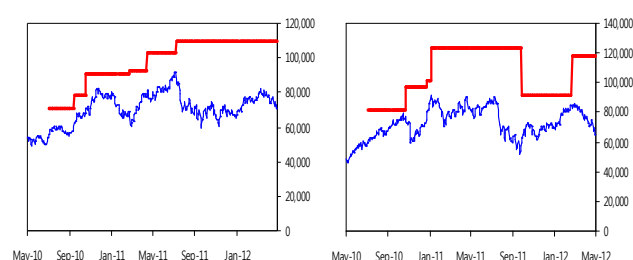
Note: Based on closing prices of May 11; Based on K-IFRS (consolidated) / Source: Korea Investment & Securities

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Target price
Samsung C&T (000830)	07-19-10	BUY	W71,000
	10-01-10	BUY	W78,000
	11-04-10	BUY	W91,000
	03-11-11	BUY	W93,000
	05-02-11	BUY	W103,000
	07-25-11	BUY	W110,000
Hyundai E&C (000720)	07-19-10	BUY	W82,000
	11-04-10	BUY	W97,000
	01-05-11	BUY	W101,000
	01-19-11	BUY	W123,000
	10-11-11	BUY	W91,000
Samsung Eng (028050)	07-19-10	BUY	W155,000
	08-11-10	BUY	W171,000
	11-04-10	BUY	W262,000
	04-20-11	BUY	W296,000
	07-19-11	BUY	W330,000
GS E&C (006360)	07-19-10	Hold	W90,000
	11-04-10	BUY	W124,000
	01-07-11	BUY	W158,000

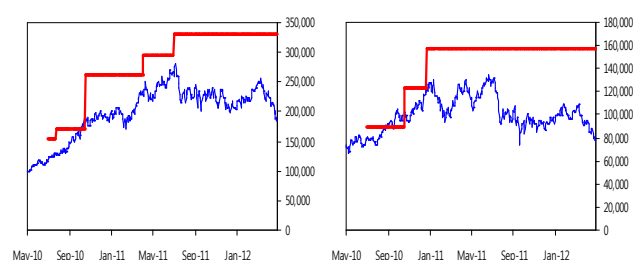
Samsung C&T(000830)

Hyundai E&C(000720)



Samsung Eng(028050)

GS E&C(006360)



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