

Dongyang Mechatronics (013570)

12M rating **BUY (Maintain)**
12M TP **W12,500** from W12,500
Up/downside **+23%**

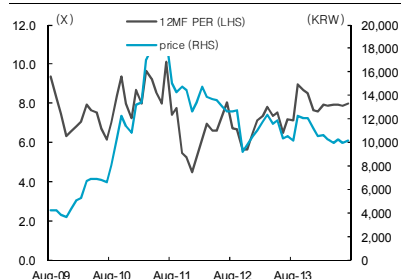
Stock Data

KOSPI (Jul 4, pt)	2,010
Stock price (Jul 4, KRW)	10,150
Market cap (USD mn)	319
Shares outstanding (mn)	32
52-Week high/low (KRW)	12,850/9,340
6M avg. daily turnover (USD mn)	1.9
Free float / Foreign ownership (%)	66.4/10.2
Major shareholders (%)	
Byeong-Ho Cho and 1 others	29.1
National Pension Service (NPS)	12.7

Performance

	1M	6M	12M
Absolute (%)	0.0	(5.6)	0.0
Relative to KOSPI (%p)	(0.1)	(8.8)	(9.3)

12MF PE trend



Source: WISEfn consensus

To adopt holding company structure via split-offs and spin-offs

Spin-off for hydraulic cylinders, split-off for auto parts

On July 4, Dongyang Mechatronics filed a disclosure announcing it would restructure and convert into a holding company. The remaining entity will change its company name into DY (a holding company). DY Power (hydraulic cylinders, spin-off) and DY Auto (auto parts, split-off) will be the new companies. Of note, the spin-off ratio will be 65 (DY):35 (DY Power). And, DYM Jiangyin will be allocated to DY Power. Meanwhile, DYM India, DYM China and HST (wipers) will be allocated to DY Auto (DYM China's cylinder division will be gradually transferred to DYM Jiangyin). The remaining sales subsidiaries will fall under DY. The split-off date will be December 1, 2014, and shares will be suspended from trading from November 27, 2014 until January 14, 2015.

Opportunity to revalue hydraulic cylinder division

Since the Chinese excavator market entered maturity in 2011, Dongyang Mechatronics has been valued based on the auto parts sector rather than hydraulic cylinders. However, DY Power should be revalued based on the hydraulic cylinder market. Meanwhile, the open market purchase period after the relisting of subsidiaries has yet to be scheduled. But, we believe the open market purchase will be executed by 2015.

Valuation

We maintain BUY with a TP of W12,500 (1x 12MF PB, required rate of return 9.4%, perpetual growth rate 3%, ROE 10%).

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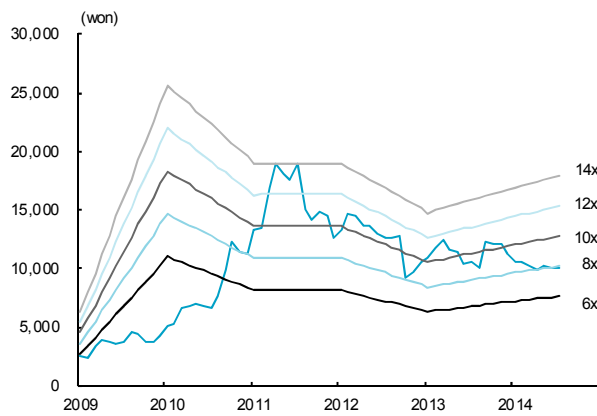
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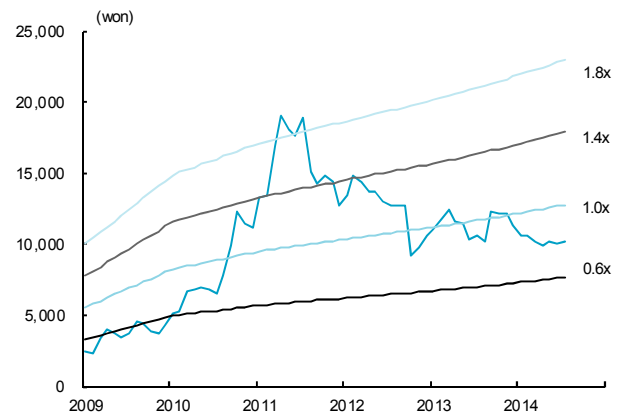
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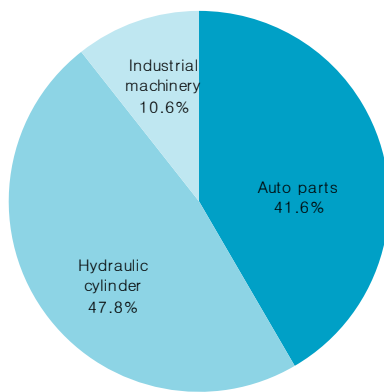
Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(W bn)	(W bn)	(W bn)	(KRW)	(YoY)	(W bn)	(x)	(x)	(x)	(%)	(%)
2012A	733	46	42	1,360	0.1	67	7.8	6.0	1.0	13.6	1.9
2013A	751	39	32	1,055	(22.4)	61	10.7	7.0	1.0	9.8	1.3
2014F	820	50	37	1,207	14.4	73	8.4	5.5	0.8	10.3	1.5
2015F	871	51	41	1,344	11.3	78	7.6	5.3	0.8	10.4	1.5
2016F	926	55	43	1,410	4.9	84	7.2	5.0	0.7	10.0	1.5

Figure 1. PE band


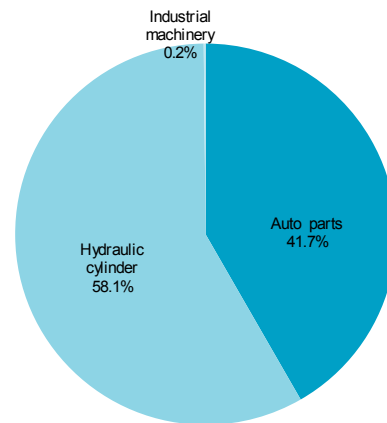
Source: Korea Investment & Securities

Figure 2. PB band


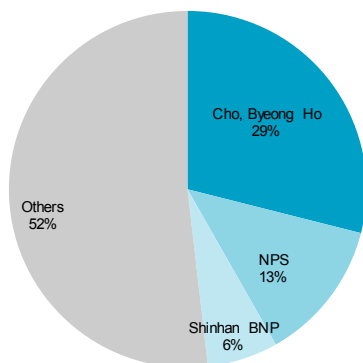
Source: Korea Investment & Securities

Figure 3. Sales breakdown (2013)


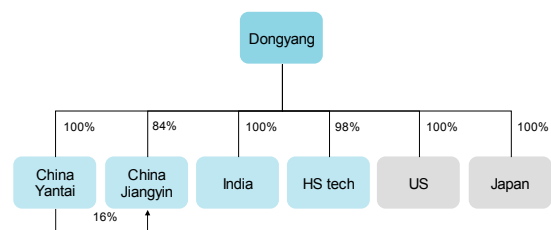
Source: DYM, Korea Investment & Securities

Figure 2. OP breakdown (2013)


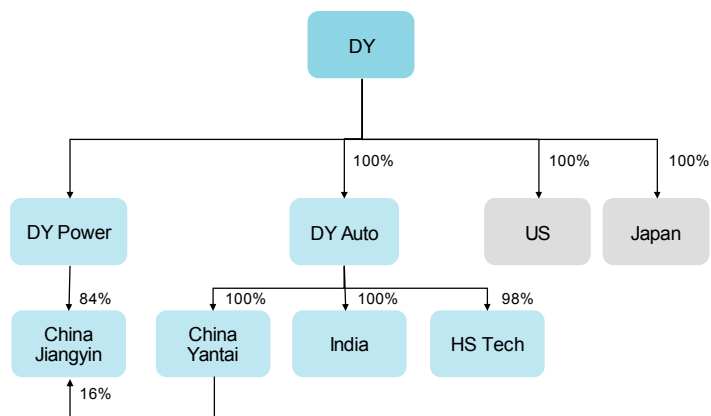
Source: DYM, Korea Investment & Securities

Figure 5. Shareholding structure


Source: DYM, Korea Investment & Securities

Figure 6. Subsidiaries


Source: DYM, Korea Investment & Securities

Figure 7. Expected holding company structure

Source: Korea Investment & Securities

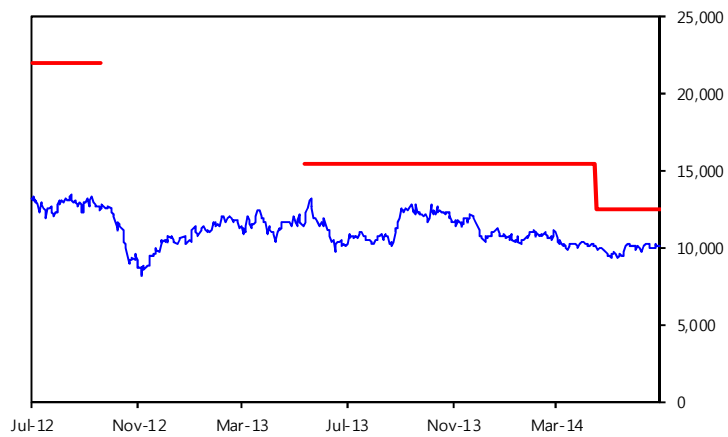
Table 1. Split and spin-off Schedule

	(YY-MM-DD)
Designated date of shareholders for split general meeting	2014-09-30
Suspension period of stock transfer	2014-10-01 ~ 2014-10-07
Suspension period of trading	2014-11-27 ~ 2015-01-14
Split-off and spin-off date	2014-12-01
New share listing/Relisting (expected)	2015-01-15

Source: DYM, Korea Investment & Securities

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Dongyang Mechatronics (013570)	08-13-12	BUY	W22,000
	09-28-12	Hold	-
	05-21-13	BUY	W15,400
	04-24-14	BUY	W12,500



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