

## Hyundai Mipo Dockyard (010620)

12M rating **BUY (Maintain)**

12M TP **₩170,000** from ₩170,000

Up/downside **+32%**

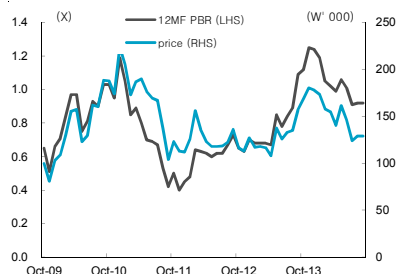
### Stock Data

KOSPI (Sep 5, pt)	2,049
Stock price (Sep 5, KRW)	129,000
Market cap (USD mn)	2,519
Shares outstanding (mn)	20
52-Week high/low (KRW)	189,500/107,500
6M avg. daily turnover (USD mn)	15.7
Free float / Foreign ownership (%)	52.3/23.7
Major shareholders (%)	
Hyundai Samho Heavy Industries Co., Ltd. and 6 others	44.8
National Pension Service (NPS)	8.4

### Performance

	1M	6M	12M
Absolute (%)	4.5	(17.6)	(10.1)
Relative to KOSPI (%)	5.3	(21.5)	(15.1)

### 12MF PE trend



Source: WISEfn consensus

### Small but strong

#### 46% of order target secured on recent LPG carrier option

Hyundai Mipo Dockyard (HMD) recently won two 22,000m<sup>3</sup> LPG carrier options from StealthGas and one 37,000 tonne asphalt carrier from Wisby Tankers, and all of the ships are priced at USD50mn. Of note, the asphalt carrier will be developed solely by HMD, and will be the largest in the world. Overall, HMD has secured USD1.59bn in new orders, 45.5% of its target. In comparison, the big 3 shipyards new order achievement rate is 38-52% on sluggish industry conditions. However, order prices over USD50mn should be noted as ship prices are falling overall, while the prices of small and mid-sized LPG carriers are climbing. In fact, the prices of the new ships are about 7.3% higher YoY.

#### LPG carrier skills transferrable to small ethylene and LNG carriers

LPG carriers have accounted for only 2-3% of the new shipbuilding market, but the weighting should grow close to 5% as tenders have increased since 2013. While the absolute size may be small, we believe this will be a high-growth niche market as US LPG export volume increases and export-import gas terminal construction expands. In fact, tender volume has increased from 4.5mn cubic meters to 4.6mn cubic meters YTD. And, we forecast tenders will grow 92.3% YoY to 8.7mn cubic meters. Meanwhile, StealthGas is a shipping company that focuses on gas products, including propane, butane and butadiene. The company has the largest market share in terms of LPG carriers, and it is reinforcing its position backed by a modernized fleet of eco-friendly ships. StealthGas plans to increase its fleet of small and mid-sized LPG carriers, as it expands into high value-added ships that require technical expertise. LPG carriers need temperatures to reach -50°C, ethane carriers -80°C and small ethylene ships -100°C for the evaporation process, similar to LNG carriers. HMD won its first small ethylene carrier in 2H13, and should win more orders in 2014.

#### Good alternative given sluggish shipbuilding industry

In addition to robust earnings visibility on higher ship prices, HMD should expand into the high value-added ship market over the long term. LPG carriers account for 45% of total new orders, indicating: 1) LPG carrier-based new orders should offset weak conditions, while the Big 3 yards suffer due to a weak offshore plant market, and 2) HMD's earnings visibility should firm on an improving sales mix, backed by higher ship prices, and 3) HMD should enter high value-added ship markets, including small ethylene ships and LNG carriers, backed by its expertise in small-to mid-sized LPG carriers. While the 46% new order achievement rate is low, HMD should selectively accept new orders based on margins as top-line growth should

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	4,415	94	98	4,978	(51.2)	161	25.5	16.5	0.8	3.0	1.2
2013A	3,986	(275)	(238)	(12,137)	NM	(209)	NM	NM	1.1	(7.6)	0.4
2014F	3,809	(447)	(342)	(17,476)	NM	(381)	NM	NM	0.9	(11.8)	0.6
2015F	4,597	153	98	5,015	NM	217	25.7	11.3	0.9	3.5	0.6
2016F	4,975	341	241	12,305	145.4	405	10.5	4.4	0.8	8.2	0.6

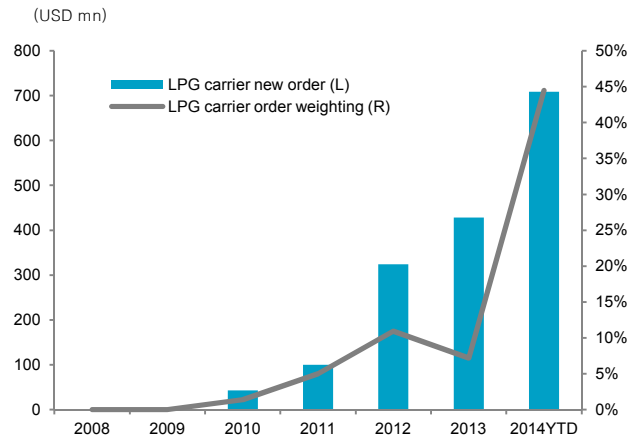
Note: Net profit and EPS are based on figures attributed to controlling interest

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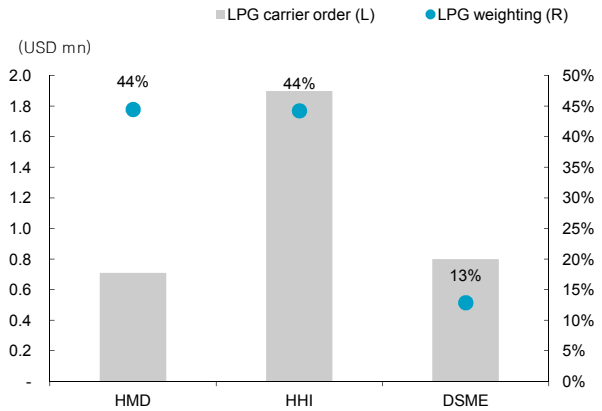
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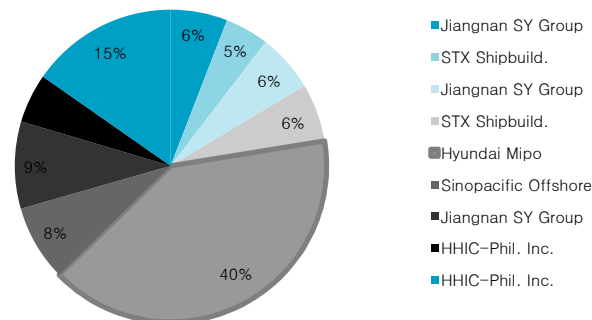
remain firm, backed by a 2.4x backlog-to-sales ratio. Overall, we maintain BUY as HMD is the only attractive shipbuilding pick.

**Figure 1. HMD's LPG carrier new order**


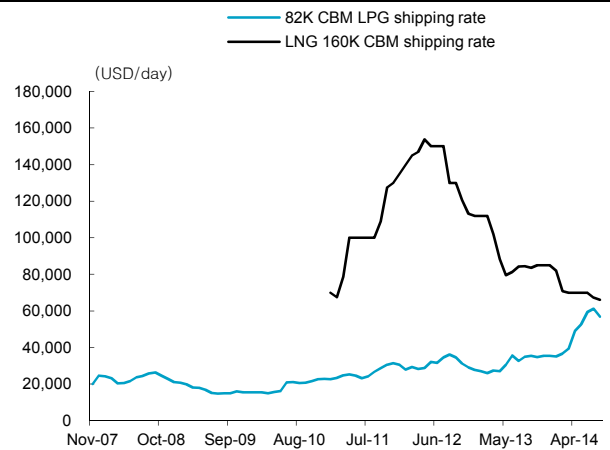
Source: Company data, Korea Investment & Securities

**Figure 2. Major shipbuilders' LPG carrier order YTD**


Source: Company data, Korea Investment & Securities

**Figure 3. HMD's market share in LPG carrier market**


Source: Company data, Korea Investment & Securities

**Figure 4. LPG and LNG shipping rate**


Source: Company data, Korea Investment & Securities

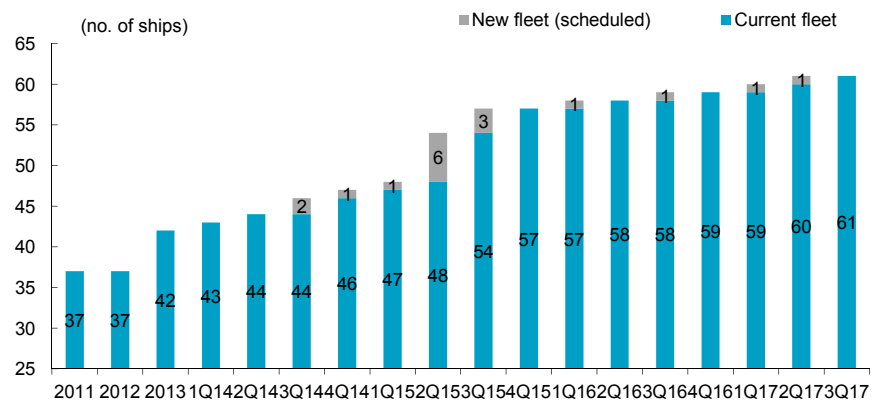
With the biggest fleet of Handysize LPG carriers, StealthGas boasts a stable financial structure by maintaining a net debt ratio of 55-60%. This means the company can afford tenders for additional LPG carriers. The company harbors 40 LPG carriers, three product tankers and one Aframax tanker. StealthGas recently signed to build 19 eco-type LPG carriers, of which 17 were awarded to Japanese yards and the rest to HMD. In a recent conference call, StealthGas' CEO said the company would modernize and expand the fleet through the optimal use of the proceeds from recent equity offerings.

**Table 1. Global major LPG shipping companies**

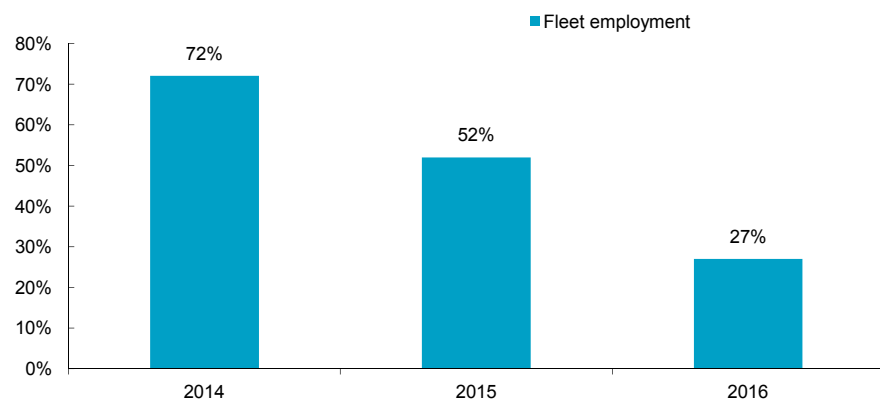
(no. of ships)

Company	Sailing Fleet	New building	Total
StealthGas	44	17	61
Spic Gas	20	12	32
Daelim	17	-	17
Vitol	15	2	17
Evergas	14	3	17
Exmar	11	-	11
Kosan	10	-	10
Unigas	8	-	8
Naftomar	6	-	6
Jaccar	6	-	6

Source: Stealth gas, Korea Investment &amp; Securities

**Figure 5. Stealth gas's fleet**

Source: Stealth gas, Korea Investment &amp; Securities

**Figure 6. Stealth gas's fleet employment**

Source: Stealth gas, Korea Investment &amp; Securities

**Table 2. HMD's quarterly earnings**

(W bn)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14F	4Q14F	2013	2014F	2015F
Sales	908	950	953	1,175	965	899	975	919	3,986	3,809	4,597
OP	(10)	(60)	(97)	(108)	(81)	(251)	(83)	(33)	(275)	(447)	153
OPM	-1.1%	-6.4%	-10.2%	-9.2%	-8.4%	-27.9%	-8.5%	-3.6%	-6.9%	-11.7%	3.3%
EBT	20	(136)	(107)	(106)	(53)	(264)	(92)	(58)	(329)	(466)	134
NP	15	(129)	(68)	(86)	(38)	(204)	(69)	(41)	(267)	(352)	101
Controlling-Interest NP	20	(122)	(59)	(78)	(35)	(199)	(67)	(38)	(238)	(342)	98

Source: Company data, Korea Investment &amp; Securities

**Table 3. New orders by ship type – Earnings eroded on low price order in 2012**

(no. of ships)

	2008	2009	2010	2011	2012	2013
PC	43		11	16	43	135
CONT		2	4	9	1	8
PCTC	2				5	4
RORO	6			8	5	1
LPG			1	2	6	10
B/C	39	3	70	15	4	13
A/C				2	2	
S/C				1		
PSV					4	
COMBO					1	
J/C					2	
<b>Total</b>	<b>90</b>	<b>5</b>	<b>92</b>	<b>53</b>	<b>73</b>	<b>171</b>

Source: Company data, Korea Investment &amp; Securities

**Balance sheet**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	4,169	6,533	6,440	6,853	6,925
Cash & cash equivalent	155	243	232	280	303
Accounts & other receivables	1,314	1,402	1,340	1,617	1,750
Inventory	187	254	243	293	317
Non-current assets	3,554	3,695	3,496	3,987	4,185
Investment assets	2,236	2,469	2,359	2,847	3,081
Tangible assets	917	845	773	700	628
Intangible assets	340	337	322	389	421
Total assets	7,723	10,228	9,936	10,841	11,110
Current liabilities	3,673	5,984	6,029	6,813	6,909
Accounts & other payables	1,684	2,061	1,969	2,377	2,572
ST debt & bond	1,791	2,608	2,658	2,358	1,958
Current portion of LT debt	0	11	31	31	31
Non-current liabilities	657	1,003	1,034	1,069	1,014
Debentures	100	130	180	160	110
LT debt & financial liabilities	134	444	444	414	369
Total liabilities	4,330	6,987	7,063	7,882	7,923
Controlling interest	3,183	3,093	2,735	2,817	3,043
Capital stock	100	100	100	100	100
Capital surplus	90	90	90	90	90
Other Reserves	(70)	(70)	(70)	(70)	(70)
Retained earnings	2,136	1,873	1,515	1,597	1,823
Minority interest	210	148	138	141	144
Shareholders' equity	3,393	3,241	2,873	2,959	3,187

**Cash flow**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operating	(732)	(654)	(246)	967	945
Net profit	87	(267)	(352)	101	244
Depreciation	65	64	63	62	61
Amortization	2	2	2	3	3
Net incr. in W/C	(917)	(538)	55	779	625
Others	31	85	(14)	22	12
C/F from investing	22	(10)	121	(500)	(108)
CAPEX	(115)	(62)	6	8	9
Decr. in fixed assets	1	3	3	3	3
Incr. in investment	38	49	109	(489)	(234)
Net incr. in intangible assets	(4)	(2)	13	(69)	(35)
Others	102	2	(10)	47	149
C/F from financing	291	751	114	(419)	(814)
Incr. in equity	0	0	0	0	0
Incr. in debts	331	780	120	(400)	(795)
Dividends	(40)	(29)	(16)	(16)	(16)
Others	0	0	10	(3)	(3)
C/F from others	11	1	0	0	0
Increase in cash	(409)	88	(11)	48	23

Note: Based on K-IFRS (consolidated)

**Income statement**

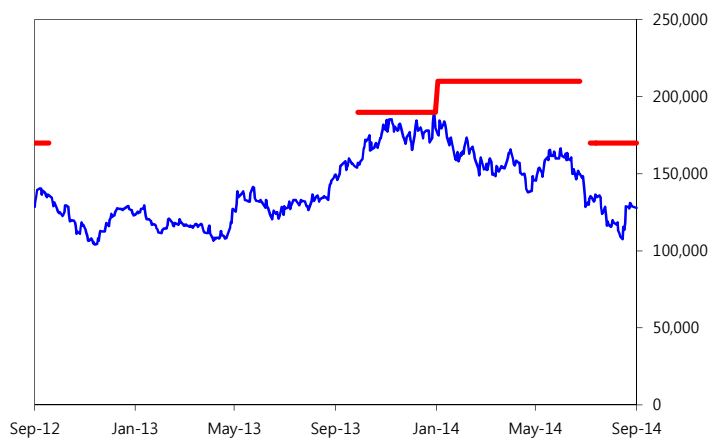
FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	4,415	3,986	3,809	4,597	4,975
COGS	4,057	3,982	3,985	4,165	4,348
Gross profit	359	3	(177)	433	626
SG&A expense	265	279	270	280	285
Operating profit	94	(275)	(447)	153	341
Financial income	216	163	160	160	160
Interest income	11	5	6	6	6
Financial expense	55	151	110	105	104
Interest expense	3	4	5	5	4
Other non-operating profit	(134)	(65)	(69)	(73)	(74)
Gains (Losses) in associates, subsidiaries and JV	0	(0)	(0)	(0)	(0)
Earnings before tax	120	(329)	(466)	134	323
Income taxes	33	(62)	(114)	33	79
Net profit	87	(267)	(352)	101	244
Net profit of controlling interest	98	(238)	(342)	98	241
Other comprehensive profit	(99)	178	0	0	0
Total comprehensive profit	(12)	(89)	(352)	101	244
Total comprehensive profit of controlling interest	6	(61)	(314)	90	217
EBITDA	161	(209)	(381)	217	405

**Key financial data**

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
per share data (KRW)					
EPS	4,978	(12,137)	(17,476)	5,015	12,305
BPS	161,427	156,900	138,998	143,127	154,396
DPS	1,500	800	800	800	800
Growth (%)					
Sales growth	(4.5)	(9.7)	(4.4)	20.7	8.2
OP growth	(75.5)	NM	NM	NM	123.9
NP growth	(51.2)	NM	NM	NM	145.4
EPS growth	(51.2)	NM	NM	NM	145.4
EBITDA growth	(64.1)	NM	NM	NM	86.6
Profitability (%)					
OP margin	2.1	(6.9)	(11.7)	3.3	6.9
NP margin	2.2	(6.0)	(9.0)	2.1	4.8
EBITDA margin	3.6	(5.2)	(10.0)	4.7	8.1
ROA	1.1	(3.0)	(3.5)	1.0	2.2
ROE	3.0	(7.6)	(11.8)	3.5	8.2
Dividend yield	1.2	0.4	0.6	0.6	0.6
Dividend payout ratio	29.6	(6.7)	(4.7)	16.3	6.6
Stability					
Net debt (W bn)	(54)	48	167	(231)	(899)
Debt/equity ratio (%)	64.7	138.2	160.1	141.9	106.8
Valuation (X)					
PE	25.5	NM	NM	25.7	10.5
PB	0.8	1.1	0.9	0.9	0.8
EV/EBITDA	16.5	NM	NM	11.3	4.4

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Hyundai Mipo Dockyard (010620)	09-27-12	BUY	W170,000
	09-29-12	Hold	-
	10-08-13	BUY	W190,000
	01-13-14	BUY	W210,000
	07-07-14	NR	-
	07-17-14	BUY	W170,000



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Prepared by: Kyungja Lee

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