

BUY (Maintain)

Price target (12M): W190,000

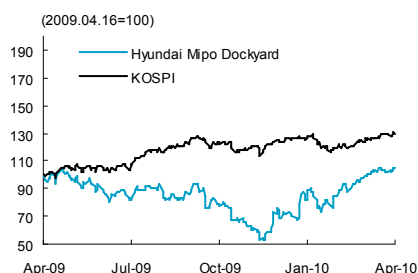
Stock Data

• KOSPI (Apr 15)	1,744
• Stock price (Apr 15, won)	154,000
• Shares outstanding (mn)	20
• Market cap (USD mn)	2,761
• 52-Week Low/High (won)	78,300/155,500
• 6M avg. daily turnover (USD mn)	16.6
• Free float (%)	50.0
• Dividend yield (2010F, %)	1.9
• Foreign ownership (%)	33.3
• Major shareholders	Hyundai Samho Heavy Ind 46.1

• Price performance	1M	6M	12M
Absolute (%)	7.3	32.6	11.6
Relative to Kospi (%)	1.6	27.5	-19.3

• 12MF PER (x)	6.8
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Price Chart



Deeply discounted and ready to cruise

Lift price target to W190,000; maintain BUY

We lift our price target from W130,000 to W190,000 (1.1x 2011F PBR) on our upward revision to the 2011F book value (by 3%) and the target PBR from 0.8x to 1.1x. Hyundai Mipo Dockyard is a mid-sized shipbuilder but sees very limited order cancellations, and this provides better visibility to the 2010F operating margin. We see no reason for the stock to trade below book value as its ROE should exceed 11% for the next three years.

Momentum-driven and value-packed

The company has already achieved 33% of its order target for 2010 at end-1Q10. If the inflow of orders continues at the present pace, its order backlog will maintain 2.5 years of work. The healthy order book should keep the company from destructive bidding and help bolster the bottom line. In addition, the company has valuable investment assets worth W2.7trn in Hyundai Heavy, KCC, POSCO, and Hi Investment & Securities and net cash holdings of W800bn. The net asset value far exceeds the current market cap. If the Kospi rallies further, the asset value should increase.

1Q10F operating profit to jump 29% YoY

1Q10F operating profit should increase 29% YoY as newbuilding projects scheduled to start in 2010 are priced high and the input price of heavy plates should be a record low in 1H10. We expect stable net profit growth on the back of increase in non-operating profit. Despite the absence of non-shipbuilding businesses, Hyundai Mipo Dockyard should enjoy stable net profit because its non-operating balance including equity-method gains and interest incomes equals 30% of operating profit.

	2008A	2009A	2010F	2011F	2012F
Sales (W bn)	3,805	3,711	3,578	3,781	3,727
OP (W bn)	537	387	453	468	422
EBT (W bn)	716	500	581	594	551
NP (W bn)	519	379	440	450	417
EBITDA (W bn)	580	429	496	511	466
Net Debt (W bn)	(1,417)	(973)	(760)	(803)	(791)
Operating margin (%)	14.1	10.4	12.7	12.4	11.3
ROE (%)	19.4	15.5	15.7	14.1	11.7
EPS (won)	26,890	18,933	22,624	23,143	21,460
chg. (% YoY)	(1.7)	(29.6)	19.5	2.3	(7.3)
BPS (won)	116,875	133,900	152,891	172,387	190,248
DPS (won)	5,000	3,000	3,000	3,000	3,000
PER (x)	7.1	6.7	6.8	6.7	7.2
PBR (x)	1.6	1.0	1.0	0.9	0.8
EV/EBITDA (x)	4.0	3.5	4.6	4.4	4.8

Source: Company data, Korea Investment & Securities

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Lift price target to W190,000

We lift our price target for Hyundai Mipo Dockyard (Mipo) from W130,000 to W190,000 (1.1x 2011F PBR) based on the following. The 2011F book value, the basis of our price target calculation, is raised by 3% on our upward revision to 2010F net profit. We also bump up the target PBR from 0.8x to 1.1x. We see no reason for the stock to trade below book value as its ROE should exceed 11% for the next three years. Our new price target offers 23% upside. We maintain BUY.

Price target and earnings revisions

(W bn, KRW, %)

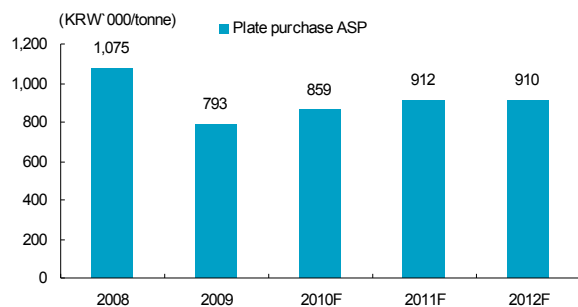
	2010F		
	Previous	Revised	Difference
Sales	4,077	3,578	(12.3)
OP	407	453	11.3
NP	422	440	4.2
OPM	10.0	12.7	
NPM	10.4	12.3	
Target 2011F PBR	0.8	1.1	
Price target	130,000	190,000	

Source: Korea Investment & Securities

Upward earnings revisions

We revise up 2010F operating profit by 11%. The near absence of order cancellations helps ease the cost concerns while the sluggish industry environment delays heavy plate price hikes. Input cost for heavy plates should be lifted by 7% in USD terms in 2011, but the operating margin should remain above 11%. We adjust up 2010F net profit by 4% on the brighter outlook for the equity-method balance. With productivity improving fast at Hyundai Vinashin Shipyard, a JV between Mipo and Vietnam Shipbuilding Industry Corp., its newbuilding volume should surge from five vessels in 2009 to 12 in 2010F. We lower 2010F sales by 12%, taking into account customer requests for delivery delay.

Heavy plate input cost (per tonne)

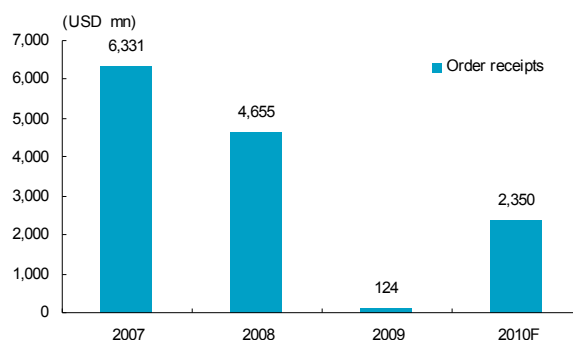


Source: Company data, Korea Investment & Securities

33% of annual order target met as of 1Q10

Mipo already achieved 33% of its annual order target of USD2.3bn for 2010 at end-1Q10. The official tally shows that the shipbuilder took 26 new orders worth USD790mn until March and this figure is a far cry from 2009 in which it took only five orders worth USD120mn. According to Fearnley, the shipyard added six newbuilding orders in April. We believe order momentum remains intact.

New order flow

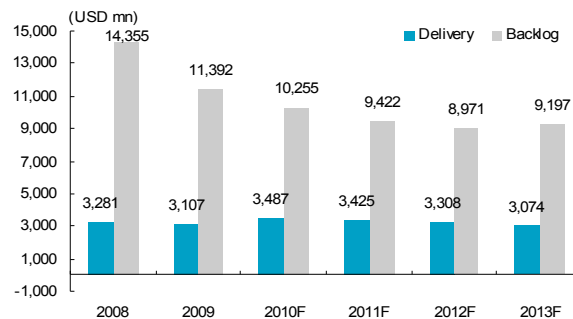


Source: Company data, Korea Investment & Securities.

Order backlog suggests stability

Investors are hesitant to pick up shipbuilding stocks on fears that a sharp decline in newbuilding orders would deplete the backlog of orders. But that is not the case for Mipo whose order book should remain at around USD9bn if the inflow of orders continues at the current pace. The shipyard has a 2.5 years worth of work. The healthy order book should keep the company from engaging in cutthroat competition for new orders and thus shore up the bottom-line.

Delivery and order backlog

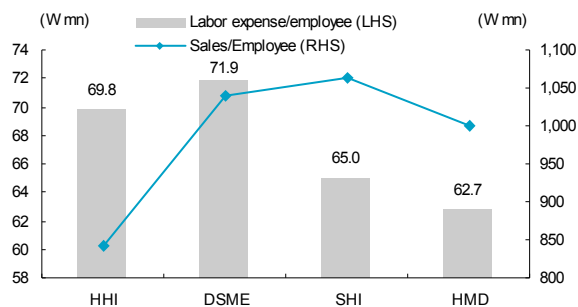


Source: Company data, Korea Investment & Securities

Slump-resistant cost structure

We believe the company's cost structure is able to weather market slumps relatively well. The sales-per-employee ratio tops the shipbuilding sector, which indicates superb productivity. Mipo generates greater margins than its rivals because it leverages bargaining power from its group company Hyundai Heavy Industries against raw material suppliers. Even if heavy plate prices rise, it would drive up newbuilding prices and thus the company is unlikely to endure sharp profitability erosion.

Productivity comparison for four major shipbuilders (2009)

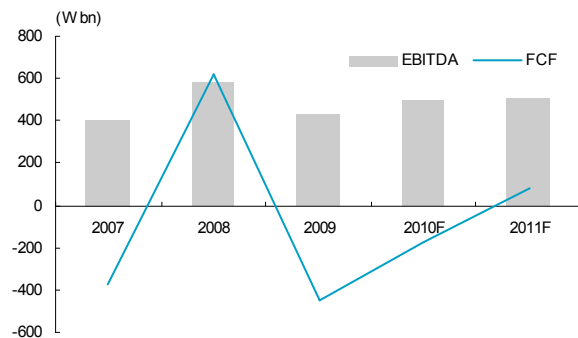


Source: Company data, Korea Investment & Securities

Improving cash flow

It is also encouraging that free cash flow (FCF) will probably turn positive from 2011. Mipo should generate positive FCF of W84.3bn in 2011 departing from negative FCF of W175.0bn in 2010 and W450.1bn in 2009. Despite the EBITDA surplus, FCF deterioration was inevitable in 2009 as a depleted order book put a strain on working capital. FCF should improve by USD230mn or W260bn if the company achieves its order target in 2010 and customer advances amount to just 10% of the invoice.

Free cash flow trend



Source: Company data, Korea Investment & Securities

Extremely undervalued despite healthy asset value

Mipo trades at a deep discount as its market cap falls short of its net asset value. The company has investment assets worth W2.7trn (before discount) and cash equivalents worth W800bn, which totals W3.5trn, and has zero debt. If we apply a 20% discount to the investment asset value under a sum-of-parts method, the fair value arrives at W300,000. If customer advances are counted as debt, the fair value comes to W200,000. The company's investment assets consist of stakes in blue-chip firms such as Hyundai Heavy Industries, KCC and POSCO.

Sum-of-parts based fair value

Core operating value (W bn)	EV/EBITDA of 6x 2010F-2011F EBITDA avg.	2,769	2,769
Non-operating value (W bn)		2,330	2,330
Unlisted equity-method subsidiaries	FY09 BV (20% discount)	699	699
Listed investment securities	Market value	1,630	1,630
HHI	(20% discount)	1,150	1,150
KCC		112	112
POSCO		368	368
Net debt (W bn, FY09)		(760)	1,161
Int. bearing debt		-	-
Advance receipt		-	1,920
Cash and cash equivalents		599	599
ST investment		160	160
Fair value (W bn)		5,858	3,792
No. of shares ('000)		19,441	19,441
Fair value per share (won)		301,330	195,053

Source: Company data, Korea Investment & Securities

1Q10F preview

1Q10F operating profit should jump 29% YoY. because 1) newbuilding orders whose keel laying is scheduled for 2010 are mostly lucrative orders granted during 2007-2008 and the input cost of raw materials such as steel plates should be a record-low in 1H10. For reference, the company tends to enjoy swelling net profit in 1Qs thanks to dividend income worth W30-40bn on average.

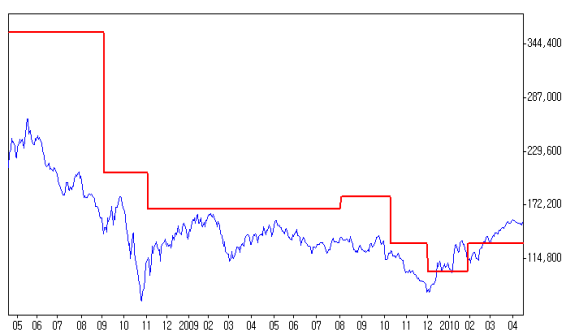
1Q10F earnings outlook

	1Q10			YoY		QoQ	
	KISConsensus	%diff		1Q09	%YoY	4Q09	%QoQ
Sales	850	868	(2.1)	1,058	(19.7)	846	0.5
OP	119	120	(1.4)	92	28.9	116	1.9
OPM (%)	14.0	13.9		8.7		13.8	
EBT	179	161	11.5	162	11.1	125	43.8
NP	136	122	11.6	124	9.6	94	44.6

Source: Company data, Korea Investment & Securities

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Target price
Hyundai Mipo	05-06-09	BUY	W356,000
Dockyard (010620)	07-30-09	BUY	W356,000
	09-03-09	BUY	W206,000
	11-04-09	BUY	W167,000
	08-03-09	BUY	W180,000
	10-09-09	Hold	W130,000
	11-30-09	Hold	W100,000
	01-27-10	BUY	W130,000
	04-04-19	BUY	W190,000



Balance Sheet

Fiscal year ending Dec. (W bn)	2008A	2009A	2010F	2011F	2012F
Current assets	3,413	2,614	2,341	2,474	2,438
Cash & cash equivalent	393	807	599	634	624
Accounts receivable	636	705	680	719	708
Inventory	298	99	96	101	100
Fixed assets	3,843	3,382	3,277	3,430	3,384
Investments	2,531	2,619	2,525	2,669	2,630
Tangible assets	553	543	540	536	532
Intangible assets	0	0	0	0	0
Total assets	7,257	5,996	5,618	5,904	5,822
Current liabilities	3,915	2,851	2,112	1,979	1,548
Accounts payable	341	242	233	284	317
Short-term borrowing	0	0	0	0	0
Current portion of LT debt	0	0	0	0	0
Long-term debt	1,081	529	510	539	531
Debentures	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Total liabilities	4,996	3,380	2,622	2,518	2,079
Paid-in capital	100	100	100	100	100
Capital surplus	210	212	212	212	212
Capital adjustments	(81)	(66)	(66)	(66)	(66)
Retained earnings	1,241	1,523	1,903	2,293	2,650
Shareholders' equity	2,261	2,616	2,996	3,386	3,743

Source: Company data, Korea Investment & Securities estimates

Income Statement

Fiscal year ending Dec. (W bn)	2008A	2009A	2010F	2011F	2012F
Sales	3,805	3,711	3,578	3,781	3,727
Gross profit	628	469	533	551	505
SG&A expense	91	82	79	84	83
Operating profit	537	387	453	468	422
Non-op. profit	819	537	152	145	142
Interest income	129	38	28	25	26
FX gains	173	172	0	0	0
Equity gains	24	36	74	69	65
Non-op. expense	640	424	24	19	13
Interest expense	0	0	0	0	0
FX losses	170	122	0	0	0
Equity losses	10	19	13	7	1
Earnings before tax	716	500	581	594	551
Income taxes	197	122	141	144	134
Profit from discontinued	0	0	0	0	0
Net profit	519	379	440	450	417
EBITDA	580	429	496	511	466

Source: Company data, Korea Investment & Securities estimates

Cash Flow

Fiscal year ending Dec. (W bn)	2008A	2009A	2010F	2011F	2012F
C/F from operating	433	(324)	(260)	210	(10)
Net profits	519	379	440	450	417
Depreciation	44	42	43	43	44
Amortization	0	0	0	0	0
Net incr. in W/C	(128)	(661)	(704)	(248)	(432)
Others	(2)	(84)	(39)	(35)	(40)
C/F from investing	(63)	835	129	(143)	68
Capex	(114)	(33)	(40)	(40)	(40)
Decr. in fixed assets	2	1	0	0	0
Net incr. in current assets	849	867	6	(9)	2
Incr. in investment	(800)	0	156	(81)	102
Others	(1)	0	8	(12)	3
C/F from financing	(145)	(97)	(77)	(34)	(67)
Incr. in equity	0	0	0	0	0
Incr. in debts	0	0	0	0	0
Dividends	(145)	(97)	(58)	(60)	(60)
Others	0	0	(19)	26	(7)
Increase in cash	224	415	(208)	34	(9)

Source: Company data, Korea Investment & Securities estimates

Key Financial Data

Fiscal year ending Dec.	2008A	2009A	2010F	2011F	2012F
per share data (won)					
EPS	26,890	18,933	22,624	23,143	21,460
BPS	116,877	133,900	152,891	172,387	190,248
DPS	5,000	3,000	3,000	3,000	3,000
SPS	190,237	185,548	184,019	194,500	191,681
Growth (%)					
Sales growth	33.6	(2.5)	(3.6)	5.7	(1.5)
OP growth	47.8	(27.9)	17.0	3.2	(9.8)
NP growth	(1.9)	(27.1)	16.2	2.3	(7.3)
EPS growth	(1.7)	(29.6)	19.5	2.3	(7.3)
EBITDA growth	42.9	(26.0)	15.5	3.1	(8.8)
Profitability (%)					
OP margin	14.1	10.4	12.7	12.4	11.3
NP margin	13.6	10.2	12.3	11.9	11.2
EBITDA margin	15.3	11.6	13.9	13.5	12.5
ROA	7.3	5.7	7.6	7.8	7.1
ROE	19.4	15.5	15.7	14.1	11.7
Dividend yield	3.7	2.9	1.9	1.9	1.9
Stability					
Net debt (W bn)	(1417)	(973)	(760)	(803)	(791)
Int. coverage (x)	NA	10,002	NA	NA	NA
D/E ratio (%)	0.0	0.0	0.0	0.0	0.0
Valuation (x)					
PER	7.1	6.7	6.8	6.7	7.2
PBR	1.6	1.0	1.0	0.9	0.8
PSR	1.0	0.7	0.8	0.8	0.8
EV/EBITDA	4.0	3.5	4.6	4.4	4.8

Source: Company data, Korea Investment & Securities estimates

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- Hold: Expected to either outperform or underperform the market by less than 15%p.
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- 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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