

January 8, 2016

Market Performance

	Jan 8	1D	1M	3M	YTD
KOSPI (pt)	1,917.62	0.70	(1.61)	(5.05)	(2.23)
Turnover (W bn)	4,995				
KOSDAQ (pt)	682.56	0.43	2.12	1.12	0.03

Major Indicators

	Jan 7	1-wk ago	1M ago	end-15
10-yr US Treasury Notes	2.15	2.27	2.23	2.27
3-yr gov't bonds (%)	1.64	1.66	1.79	1.66
AA- corporate bonds (%)	2.20	2.23	2.34	2.23
KRW/USD (won)	1,200.40	1,175.06	1,168.06	1,175.06
KRW/100JPY (won)	1,015.59	977.03	946.89	977.03
JPY/USD (yen)	117.67	120.06	123.37	120.06
USD/EUR (USD)	1.09	1.09	1.08	1.09
WTI (USD/bbl)	33.27	36.60	37.65	37.04
Gold (USD/oz)	1,107.80	1,059.80	1,075.20	1,060.20

Domestic Institutions Net Buy / Sell

Net Buy	(W bn)	Net Sell	(W bn)
Samsung Electronics	19.0	Chong Kun Dang Pharm	12.8
Lotte Chemical	17.0	Hyundai Elevator	10.7
LG Electronics	16.3	SK Telecom	7.8
NAVER	14.8	Hana Financial Group	5.1
KEPCO	9.4	Doosan Heavy I&C	4.9

Foreign Net Buy / Sell

Net Buy	(W bn)	Net Sell	(W bn)
SK Telecom	15.6	Samsung Electronics	55.9
Hanmi Pharm	14.7	Hyundai Motor	38.6
Green Cross	14.7	Hyundai Securities	36.9
LG Chem	12.6	SK Hynix	19.6
BGF Retail	11.5	Hotel Shilla	14.2

Daily performance by sector

Top five sectors	% chg	Bottom five sectors	% chg
Pharmaceutical	4.00	Machinery	(1.86)
Construction	1.80	Electric & gas utilities	(0.68)
Medical precision	1.28	Paper & wood	(0.57)
Chemical	1.16	Securities	(0.56)
Telecom services	1.15	Transport & storage	(0.33)

WHAT'S NEW TODAY

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Company & sector note

➤ **Samsung SDI** (006400): Positive momentum still intact

Our market view (for the mid- to long-term)

(%, x)		2014A	2015F	2016F
Corporate earnings	OP growth	(8.1)	14.1	19.6
	NP growth	(4.8)	24.1	8.7
Valuation	PE	14.2	11.6	10.2
	PB	1.05	0.98	0.89

Economic forecast

Factors	1Q15A	2Q15A	3Q15A	4Q15F	2015F	2016F
GDP (%)	2.5	2.2	2.6	2.9	2.6	2.5
Private consumption (%)	1.2	1.0	2.0	2.3	1.9	1.9
Facility investment (%)	4.6	3.8	6.8	5.3	5.7	5.3
Trade balance (USD bn)	21.6	24.6	20.1	33.3	99.6	85.0
CPI (%)	0.6	0.5	0.8	1.0	0.6	1.3
KRW/USD (AVG)	1101	1097	1169	1150	1129	1180
Policy rate (% EOP)	1.75	1.50	1.50	1.50	1.50	1.50

Note) All figures' growth rates are on YoY basis.

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In-depth reports

Oil refining (Overweight)

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Unlocking massive potential

▶ **Turning bullish on all refiners:** We upgrade our Hold rating on S-Oil to BUY with a target price of W110,000 at 2016 2.0x PB as we lift our effective GRM (Asia GRM - OSP) forecasts by 32% and 37% for 2016 and 2017, respectively. We now expect 2016 operating profit for SK Innovation (SKI), S-Oil and GS Caltex to all jump 32-34% YoY on the better effective GRM outlook. We raise our target prices for SKI and GS Holdings (GSH) by 31% and 26% to W210,000 and W86,000, respectively, supported by 1) a higher GRM and 2) target 2016 1.1x PB based on the peers' PB versus ROE.

▶ **Positive transformation in motion:** We believe structural improvements for Asian oil refiners' margin structure will begin to unlock from 2016. A massive crude oil glut and consequently low prices are reshaping the refining industry to favor to Asian players. First, better demand on low prices is expected to improve the refining supply-demand dynamics for the next three years with the demand increment outpacing new capacities by 0.4-0.6mbpd during 2016-2018. Second, heated competition among oil-producing countries is causing relative weakness for Dubai crude versus WTI and a lower OSP, which together lift the refining margin structure by USD3.5/bbl.

▶ **Time to focus on upside potential:** A prolonged slide for crude oil prices distorted the refining margins, leaving vast misperceptions. However, with Dubai crude having now fallen to USD30.8/bbl, it is time to look at the earnings oil refiners can generate. Once oil prices find the bottom, we believe the consensus earnings forecasts for Korean oil refiners would all increase by 30% to even 70% in 2016. All in all, we recommend accumulating all three names while they are mispriced and underestimated on oil price-related noise.

Company & sector note

Samsung SDI (006400)

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BUY (Maintain), TP: W140,000 (Maintain), Closing price: W113,000 (+1.80%)

Positive momentum still intact

▶ Samsung SDI (SDI) is expected to sell 5mn shares of Samsung C&T (C&T) by March 1 to resolve the cross-shareholding structure as determined by the Fair Trade Commission (FTC). And, we expect the sale to generate W715bn in cash inflows based on the January 7 closing price.

▶ SDI holds stakes in several affiliates (Table 3), and we believe additional share disposals will be required to resolve the cross-shareholding structure. And, the inflows from these disposals should be positive, as the cash can be used to fund mid-to large-size rechargeable battery R&D and capex – SDI's next growth engine. Of note, the W70bn capital increase at STM (wholly-owned subsidiary) in December is evidence of cash being used to improve the financial structure and reinforce competitiveness.

▶ As the largest stakeholder in Samsung Engineering (13.1% stake), SDI will participate in the rights offering, which should amount to W143bn. If there are any forfeited shares, Vice Chairman JY Lee has announced he would participate up to W300bn in the capital increase – although SDI has not yet confirmed it would participate in a rights offering open to the public. – which has significantly eased the financial risk for SDI. Overall, we believe the impact from the participation in the rights issue has already been priced into SDI shares.

▶ 4Q15 OP should fall shy of our earlier estimate of W5.3bn given weak smartphone sales by a major client, disappointing yield and utilization and intense competition in the small rechargeable battery market. However, global EV sales volume growth (PHEV and EV) reached an annual high of 102% YoY in November 2015, suggesting that EV demand remains robust and momentum remains positive. And, we believe shares are excessively undervalued trading below 1x PB. As such, we maintain BUY.

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