

## Hyundai Heavy Industries

3Q10 OP beat expectations, based on strong performance by offshore & engineering and construction equipment divisions

<b>BUY</b>	Maintain
<b>W367,000</b>	Target: W430,000
Mkt.Cap: W27.89tn/US\$24.81bn	
Industrial Machinery	

009540 KS

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### Maintain BUY and TP of W430,000

We maintain the BUY rating and the TP of W430,000 for Hyundai Heavy Industries. Key investment points are: 1) Irrespective of the stock price gains, earnings forecasts continue to be revised upward and valuation indexes remain appealing; and 2) Although ship sales are expected to decrease, overall sales are forecasted to exhibit steady growth through 2012, mainly driven by non-shipbuilding divisions, such as electro electric systems, offshore & engineering and construction equipment.

### 3Q10 OP beat expectations, based on strong performance by offshore & engineering and construction equipment divisions

Hyundai Heavy Industries posted OP of W799bn (+49% yoy, +3% qoq) and NP of W863bn (+62% yoy, -5% qoq) in 3Q10. The strong OP performance beat the market consensus, with the profitability improvement from the offshore & engineering and construction equipment divisions outweighing the profitability deterioration of the shipbuilding and engine & machinery divisions.

OP margin from the offshore & engineering division rose 5.7%pt qoq to 24.1% in 3Q10 (2Q10 OP margin was 18.4%), backed by highly profitable new projects received starting from 2009 and the reflection of change orders.

#### 3Q10 earnings comparison

(Wbn, %)

Category	Earnings		Estimates			Consensus	Daishin estimates		
	3Q09	2Q10	3Q10(A)	YoY	QoQ	3Q10(F)	4Q10(F)	YoY	QoQ
Sales	4,986	5,335	5,334	7.0	0.0	5,301	5,365	0.6	0.6
OP	537	776	799	49.1	3.1	733	757	12.2	-5.4
NP	534	911	863	61.7	-5.2	742	700	-3.0	-19.0

Source: Hyundai Heavy Industries, consensus provided by WISEfn, Daishin Securities Research Center

#### Revised earnings forecasts for 2010~2011

(Wbn, W)

Category	Previous		Revised		Chg. (%)	
	10F	11F	10F	11F	10F	11F
Sales	21,021	22,856	21,341	23,108	1.5%	1.1%
OP	3,006	2,608	3,214	2,894	6.9%	11.0%
NP	3,168	2,807	3,400	3,030	7.3%	7.9%
EPS	41,687	36,932	44,735	39,867	7.3%	7.9%

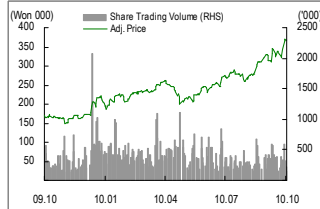
Note: Previous earnings forecasts are based on the report dated Oct 11, 2010

Source: Daishin Securities Research Center

## Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (Won bn)	19,957.1	21,142.2	21,341.3	23,108.5	23,961.0
EBITDA (Won bn)	2,597.0	2,668.2	3,634.4	3,281.8	2,752.5
EBITDA margins (%)	13.0	12.6	17.0	14.2	11.5
Pretax profit (Won bn)	2,949.6	2,648.1	4,485.3	3,997.2	3,358.4
Net profit (Won bn)	2,256.7	2,146.5	3,399.9	3,029.9	2,545.7
EPS (Won)	29,693	28,243	44,735	39,867	33,495
EPS growth (%)	30.0	-4.9	58.4	-10.9	-16.0
P/E (x)	6.7	6.1	7.6	8.6	10.2
FD core EPS (Won)	29,693	28,243	44,735	39,867	33,495
FD core P/E (x)	6.7	6.1	7.6	8.6	10.2
Gross DPS (Won)	5,000	3,500	5,000	5,000	3,500
Dividend yield (%)	2.5	2.0	1.5	1.5	1.0
P/BV (x)	2.7	1.3	2.0	1.7	1.4
ROE (%)	40.7	27.9	29.8	21.1	15.1
Net gearing (%)	356.6	151.6	108.9	79.3	64.1
EV/EBITDA (x)	4.9	5.0	7.7	8.1	9.3
Change in EPS estimates			7.3	7.9	9.6
Daishin/Consensus (x)			1.1	1.0	0.9

## Price chart



Source: Bloomberg

Source: Hyundai Heavy Industries, Daishin Securities Research Center, Bloomberg

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- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.

► **Sector ratings breakdown**

- Overweight : industry indicators are expected to outperform the market over the next 6m
- Neutral : industry indicators are expected to be in line with the market over the next 6m
- Underweight: industry indicators are expected to underperform the market over the next 6ms.

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### Hyundai Heavy Industries (009540 KS) Ratings and target price history

Date	10.10.29	10.10.11	10.07.22	10.05.22	10.05.15	10.05.04	10.04.23	10.01.29	10.01.15	09.11.17	09.11.14
Rating	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy
TP	430,000	430,000	310,000	310,000	310,000	310,000	310,000	240,000	210,000	210,000	210,000
Date	09.11.11	09.10.30	09.07.27	09.07.02	09.05.14	09.05.04	09.01.30	08.11.16	08.10.31		
Rating	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy		
TP	210,000	235,000	262,000	262,000	262,000	262,000	262,000	211,000	211,000		

