true friend Korea Investment & Securities Co., Ltd.

Earnings Review
April, 23, 2010

Hyundai Heavy (009540)

Above | In line | Below

BUY (Maintain)

Price target (12M): W330,000

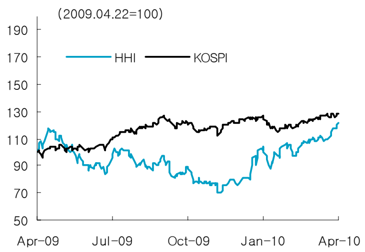
KOSPI (Apr 22)	1,740
Stock price (Apr 22,won)	258,000
Shares outstanding (mn)	76.0
Market cap (USD mn)	19,456
52-Week Low/High (won)	148,500/256,000
6M avg. daily turnover (USD mn)	86.4
Free float (%)	57.6
Dividend yield (2010F,%)	1.4
Foreign ownership (%)	18.4

Major shareholders (%)	MJ Chung	10.8
	Hyundai Mipo	8.0

Valuation	2010F	2011F
PER (x)	5.8	5.9
PBR (x)	1.5	1.2
EV/EBITDA (x)	5.6	5.6
EPS (won)	44,731	43,913
BPS (won)	176,651	207,904

Stock performance	1M	6M	12M
Absolute (%)	10.5	38.0	21.1
Relative to Kospi (%p)	6.5	31.3	-7.2

Price chart



Even better than expected

What's new? Record-high quarterly earnings

HHI announced record-high 1Q10 OP of W880.9bn which outperformed market consensus by 40%. This was due to surge in shipbuilding OPM to 17.7% in 1Q10 (from 2.8% in 1Q09 and 13.3% in 4Q09). Profitability improvement was mainly due to shipbuilding being concentrated on ships ordered on high ship price after 2007 and raw material cost staying low. Moreover, plant division OP increased six times YoY as the company went into constructing new projects that were obtained at good margin. Finally, construction equipment division succeeded in turning to profit in 1Q10.

Positives: Cashflow has rather improved

1Q10 net debt has decreased by W48.9bn QoQ to W93.9bn. We view this as positive given that it softened shipbuilding investors' concern on cash flow. We can interpret this as smooth flow of intermediate payment from ship owners as well as inflow of upfront fee due to favorable new order flow. HHI has obtained 28% of 2010F order target of USD17.7bn as of 1Q10.

Negatives: Higher expectation of market

We view increase in market's expectation due to earnings surprise as a risk. Especially, despite continuous increase in non-shipbuilding division OP, this year's shipbuilding sales came in too high which will lead to temporary net profit decrease next year.

Conclusion: Raise TP from W260,000 to W330,000

We raised HHI's target price from W260,000 to W330,000 (1.5x 2011F PBR). We raised 2011F BPS by 20% on the back of increase in estimate as well as revaluation of asset at the end of last year. We expect to see additional share price rally. 1) We expect offshore order momentum as Transocean, Tsakos (Greece) had each ordered 2 drill ships (USD500mn per ship) and Total is likely to order one FPSO (USD1.5~2bn per ship) on the back of recent boost in oil price. 2) Construction equipment division, which had been recording loss, OP cycle has turned around this year. 3) Ease of concern related to discount factor from financing issue of Hyundai oil refinery acquisition cost as HHI's EBITDA is expected to over W3.5tr in 2010F.

(W bn, %, %p, x, won)

(Parent)	1Q10P				Change		2010F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	5,131	5,306	3.4	5,248	(0.5)	(3.4)	21,599	21,614
OP	582	881	51.5	629	30.5	86.9	2,448	2,594
OP margin	11.3	16.6		12.0			11.3	12.0
EBT	669	1,189	77.7	623	40.8	87.9	2,802	2,739
NP	507	926	82.6	569	28.4	85.9	2,124	2,331

Source: Company data, Korea Investment & Securities estimates

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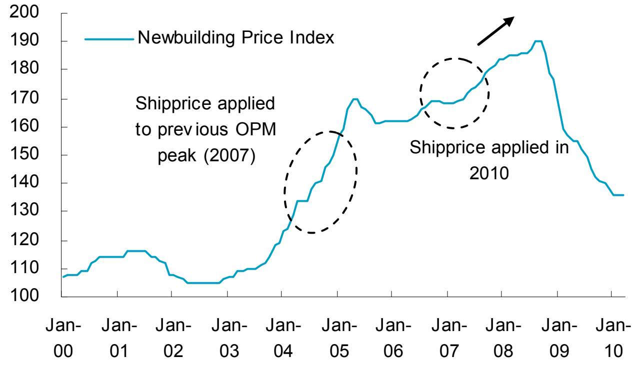
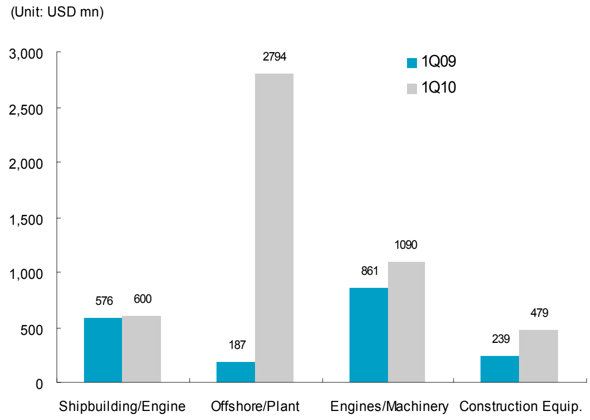
New shipbuilding price index



Source: Company data, Korea Investment & Securities

New order flow by business division



Source: Company data, Korea Investment & Securities

1Q10 Operating profit by business division

(W bn)	1Q10 OP	1Q10 OPM (%)	QoQ	YoY
Shipbuilding	342.6	17.7	17.4	407.6
Offshore	101.4	15.5	21.9	(13.5)
Industrial Plant	146.1	18.8	64.7	599.0
Engines/Machinery	169.7	28.4	(13.7)	(20.0)
Electro-Systems	153.6	19.9	90.1	(4.7)
Construction Equip.	30.1	5.6	Profit	Profit
Others	1.7	5.3	(29.2)	21.4
Common SG&A	(64.3)			
Total	**880.9**	**16.6**	**30.5**	**86.9**

Source: Company data, Korea Investment & Securities

2010/2011F earnings estimate and target price change

	2010F			2011F		
	Old	New	Diff.	Old	New	Diff.
Sales	21,712	21,441	(1.2)	22,014	22,965	4.3
OP	2,247	3,072	36.7	2,293	3,051	33.1
NP	2,052	2,712	32.1	2,127	2,662	25.2
OPM	10.3	14.3		10.4	13.3	
NPM	9.5	12.6		9.7	11.6	
Target 2011F PBR	1.5	1.5				
2011F BPS	172,701	207,904.4	20.4			
Target Price	260,000	330,000				

Source: Company data, Korea Investment & Securities

Balance sheet

Fiscal year ending Dec. (W bn)	2008A	2009F	2010F	2011F	2012F
Current assets	12,618	10,610	10,760	10,836	11,378
Cash & cash equivalents	667	633	856	917	963
Accounts receivable	4,499	4,974	5,044	4,943	5,190
Inventory	2,263	1,929	1,741	1,636	1,717
Non-current assets	12,663	14,263	17,086	17,640	18,035
Investments	3,224	4,866	7,786	8,340	8,757
Tangible assets	6,190	8,146	8,031	7,942	7,852
Intangible assets	262	288	293	313	329
Total assets	25,280	24,873	27,846	28,476	29,413
Current liabilities	16,474	12,909	11,411	9,511	9,755
Accounts payable	2,337	1,428	1,448	1,551	1,628
Short-term debt and bond	0	585	585	585	585
Current portion of LT debt	0	0	0	0	0
Non-current liabilities	3,211	2,155	4,181	4,315	2,415
Debentures	0	299	299	299	299
LT debt and lease	3	5	2,005	2,005	5
Total liabilities	19,685	15,064	15,592	13,826	12,171
Paid-in capital	380	380	380	380	380
Capital surplus	2,819	2,870	2,870	2,870	2,870
Capital adjustments	(1,762)	(1,698)	(1,698)	(1,698)	(1,698)
Retained earnings	4,657	6,504	8,950	11,346	13,938
Shareholders' equity	5,595	9,808	12,254	14,650	17,242

Source: Company data, Korea Investment & Securities estimates

Income statement

Fiscal year ending Dec. (W bn)	2008A	2009F	2010F	2011F	2012F
Sales	19,957	21,142	21,441	22,965	24,114
Gross profit	3,145	3,145	4,006	4,040	4,242
SG&A expenses	939	922	933	988	1,036
Operating profit	2,206	2,223	3,072	3,051	3,206
Non-operating profit	3,827	3,310	755	794	827
Interest income	280	167	51	60	64
FX gains	818	749	0	0	0
Equity gains	771	480	588	608	631
Non-operating expenses	3,084	2,884	250	334	263
Interest expenses	6	34	144	221	144
FX losses	762	607	0	0	0
Equity losses	152	195	0	0	0
Earnings before tax	2,950	2,648	3,577	3,512	3,771
Income taxes	693	502	866	850	912
Profit from discontinued	0	0	0	0	0
Net profit	2,257	2,146	2,712	2,662	2,858
EBITDA	2,597	2,668	3,580	3,561	3,719

Source: Company data, Korea Investment & Securities estimates

Cash flow

Fiscal year ending Dec. (W bn)	2008A	2009F	2010F	2011F	2012F
C/F from operations	2,383	(958)	1,211	673	2,506
Net profit	2,257	2,146	2,712	2,662	2,858
Depreciation	347	400	459	459	459
Amortization	43	46	49	51	54
Net incr. in W/C	(1,235)	(5,608)	(1,588)	(2,071)	(410)
Others	970	2,058	(420)	(427)	(454)
C/F from investing	(1,184)	337	(2,744)	(463)	(282)
Capex	(1,791)	(1,179)	(473)	(497)	(497)
Decr. in fixed assets	83	128	128	128	128
Net incr. in current assets	870	1,700	(2)	(8)	(6)
Incr. in investment	(279)	(249)	(2,332)	55	214
Others	(67)	(63)	(66)	(141)	(122)
C/F from financing	(1,485)	586	1,757	(150)	(2,178)
Incr. in equity	0	0	0	0	0
Incr. in debt	(186)	886	2,000	0	(2,000)
Dividends	(467)	(300)	(212)	(266)	(266)
Others	(833)	0	(31)	116	88
Increase in cash	(286)	(35)	223	61	46

Source: Company data, Korea Investment & Securities estimates

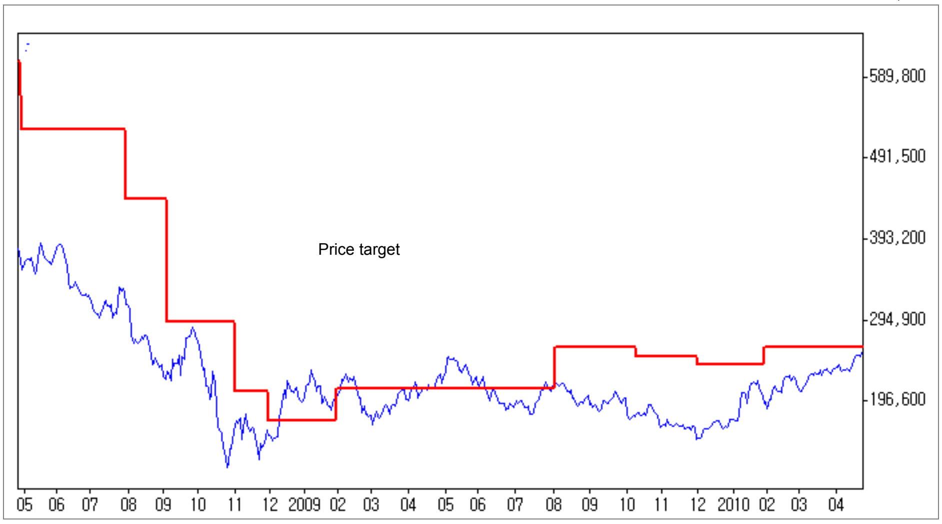
Key financial data

Fiscal year ending Dec.	2008A	2009F	2010F	2011F	2012F
Per-share data (won)					
EPS	37,340	35,705	44,731	43,913	47,147
BPS	90,294	144,525	176,651	207,904	241,805
DPS	5,000	3,500	3,500	3,500	3,500
SPS	262,593	278,187	353,692	378,835	397,777
Growth (%)					
Sales growth	28.5	5.9	1.4	7.1	5.0
OP growth	26.0	0.7	38.2	(0.7)	5.1
NP growth	30.0	(4.9)	26.3	(1.8)	7.4
EPS growth	34.4	(4.4)	25.3	(1.8)	7.4
EBITDA growth	21.2	2.7	34.2	(0.5)	4.4
Profitability (%)					
OP margin	11.1	10.5	14.3	13.3	13.3
NP margin	11.3	10.2	12.6	11.6	11.9
EBITDA margin	13.0	12.6	16.7	15.5	15.4
ROA	10.7	8.6	10.3	9.5	9.9
ROE	40.7	27.9	24.6	19.8	17.9
Dividend yield	2.5	2.0	1.4	1.4	1.4
Stability					
Net debt (W bn)	(2,473)	148	1,923	1,854	(197)
Int. coverage (x)	340.9	65.1	21.3	13.8	22.2
D/E ratio (%)	0.1	9.1	23.6	19.7	5.2
Valuations (x)					
PER	7.9	5.5	5.8	5.9	5.5
PBR	3.3	1.4	1.5	1.2	1.1
PSR	1.1	0.7	0.7	0.7	0.6
EV/EBITDA	7.1	5.1	5.6	5.6	4.8

Source: Company data, Korea Investment & Securities estimates

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Hyundai Heavy (009540)	08-09-03	BUY	W292,000
	08-10-31	BUY	W207,000
	08-11-28	Hold	W172,000
	09-01-30	Hold	W211,000
	09-08-03	BUY	W260,000
	09-10-09	BUY	W250,000
	09-11-30	BUY	W240,000
	10-01-27	BUY	W260,000
	10-04-23	BUY	W330,000



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

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  - Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
  - Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
  - 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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