

**HHI**  
 (009540.KS)

# Solid momentum of non-shipbuilding divisions

**Buy (Maintain)**
**TP W300,000 (Raise)**
**Analyst**
**Martin Song**

822)768-7473, martin.song@wooriwm.com

**Jay Hong (RA)**

822)768-7973, jay.hong@wooriwm.com

**Shipbuilding industry top pick: revise up target price to W300,000**

- We maintain Buy and revise up target price to W300,000. We recommend HHI as our shipbuilding industry top pick. Investment points include: 1) possibility of upward earnings revision to reflect strong non-shipbuilding divisions, including offshore, plant, and electro-electric systems; 2) top-notch cash flow and asset value in the industry; 3) attractive valuations; and 4) positive developments in the shipbuilding industry, including order recovery and rising vessel prices
- We estimate 2010 and 2011 operating margin at 11.5% and 11.3%, respectively, with EPS of W35,624 and W40,316. Shares are undervalued, trading at 2010 and 2011 P/Es of 6.4x and 5.7x, respectively, and EV/EBITDAs of 5.6x and 5.4x

**Strong growth expected for non-shipbuilding divisions**

- Non-shipbuilding divisions should continue to grow and shipbuilding's contribution shrink mid- to long term. We believe HHI will become not only the number-one shipyard, but also transform into the number-one heavy industry play in the world.
- In terms of margins, the non-shipbuilding divisions are offsetting the shrinking margins in shipbuilding. Earnings growth should continue, with 1Q10 operating profit estimated at W596.1bn (up 26.5% y-y)

**2010 orders likely to surpass company target of US\$17.7bn**

- The company targets orders of US\$17.7bn (up 65.1% y-y) in 2010. The target seems achievable given recent orders for the non-shipbuilding units
- HHI has secured sufficient orders. Order backlog reached US\$50.5bn (end-January), equivalent to more than two years' work, which is positive for earnings

[as of March 25 2010]

- Current price: W229,000 (common)
- Market cap: \$15,327.17mn
- Capital: W380.0bn
- 52W high: W250,000  
low: W148,500
- Foreign ownership: 18.8%
- Dividend yield (09): 1.53%

**Earnings forecast**

(Units: Wbn, won, x, %)

		2009	2010E	2011F	2012F
Sales	- Revised	21,142	22,507	24,119	25,775
	- Previous		22,229	23,747	25,048
	- Chg		1.3	1.6	2.9
OP	- Revised	2,223	2,592	2,715	2,746
	- Previous		2,406	2,576	2,469
	- Chg		7.7	5.4	11.2
EBITDA		2,668	3,122	3,294	3,367
NP		2,146	2,707	3,064	3,213
EPS	- Revised	28,243	35,624	40,316	42,283
	- Previous		33,429	38,655	39,842
	- Chg		6.6	4.3	6.1
P/E		6.1	6.4	5.7	5.4
P/B		1.4	1.5	1.2	1.0
EV/EBITDA		5.0	5.6	5.4	5.4
ROE		27.9	25.3	23.6	20.3

Source: Woori I&amp;S Research Center estimates

- WOORI Investment & Securities does not have a stake greater than or equal to 1% in HHI as of the preparation date.
- WOORI Investment & Securities has not provided this material to an institutional investor or other third party in advance.
- The analyst and his/her spouse do not own any securities of HHI as of the preparation date.
- Woori I&S is an issuer and LP (liquidity provider) of ELW taking HHI as an underlying asset.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

### Shipbuilding industry top pick: revise up target price to W300,000

We maintain Buy and revise up target price to W300,000. We recommend HHI as our shipbuilding industry top pick.

Investment points include: 1) possibility of upward earnings revision to reflect strong non-shipbuilding divisions, including offshore, plant, and electro-electric systems; 2) top-notch cash flow and asset value in the industry; 3) attractive valuations; and 4) positive developments in the shipbuilding industry, including order recovery and rising vessel prices

We maintain a Buy rating and revise up target price 25% from W240,000 to W300,000. We recommend HHI as shipbuilding industry top pick.

### Revise up 2010 and 2011 operating profit 7.7% and 5.4%, respectively

Although we expect the shipbuilding division to remain stagnant, growth should continue at the non-shipbuilding divisions from 2010. We revise up estimates to reflect the unexpected growth of the non-shipbuilding units, including offshore, plant, and electro-electric systems. In particular, we revise up 2010 and 2011 sales by 1.3% and 1.6%, respectively, and operating profit by 7.7% and 5.4%.

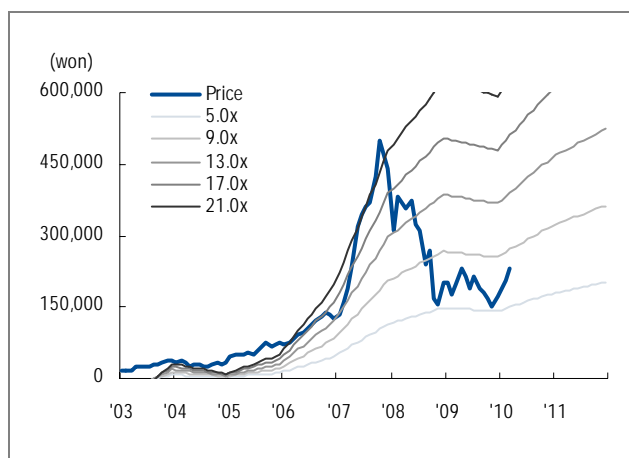
We now expect 2010 sales of W22,507.2bn (up 6.5% y-y), operating profit W2,591.9bn (up 16.6% y-y), and net profit W2,707.4bn (up 26.1% y-y); and 2011 sales of W24,118.7bn (up 7.2% y-y), operating profit W2,714.9bn (up 4.7% y-y), and net profit W3,064.0bn (up 13.2% y-y). While shipbuilding sales are likely to fall due to construction schedule adjustments caused by order cancellations and delayed deliveries, overall sales and margins should remain firm, led by the non-shipbuilding divisions, ie, offshore and electro-electric systems.

### Valuations still attractive despite recent rally

We estimate 2010 and 2011 operating margin at 11.5% and 11.3%, respectively, with EPS of W35,624 and W40,316. Shares are undervalued, trading at 2010~2011 P/Es of 6.4x and 5.7x, respectively, P/Bs of 1.5x and 1.2x, and EV/EBITDAs of 5.6x and 5.4x. Shares have rallied recently, but still remain in the lower end of the historical valuation band.

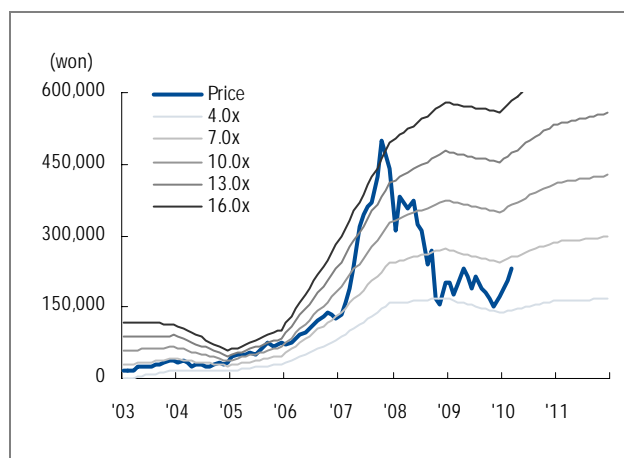
Over the last four years, shares have traded at an average P/E of 10.4x and EV/EBITDA of 7.7x. Our RIM-derived target assumes a market risk premium of 6.0%, risk-free rate of 4.0%, beta of 1.2, and COE of 11.2%, and equates to a 2010 P/E of 8.4x and EV/EBITDA of 7.4x.

P/E band



Source: Woori I&S Research Center

EV/EBITDA band



Source: Woori I&S Research Center

## Sales forecast, by division

(Units: Wbn, %)

		2006	2007	2008	2009	2010E	2011F	2012F
Shipbuilding	Sales	6,442.8	7,556.7	9,084.9	9,002.6	8,258.4	8,095.6	7,987.5
	Chg	21.0	17.3	20.2	-0.9	-8.3	-2.0	-1.3
	%	51.3	48.6	45.5	42.6	36.7	33.6	31.0
Offshore	Sales	1,934.6	2,222.1	3,095.1	3,423.5	3,536.0	3,702.8	4,117.1
	Chg	31.1	14.9	39.3	10.6	3.3	4.7	11.2
	%	15.4	14.3	15.5	16.2	15.7	15.4	16.0
Plant	Sales	601.6	1,016.6	1,374.4	1,897.9	2,380.5	2,656.0	2,972.3
	Chg	-2.8	69.0	35.2	38.1	25.4	11.6	11.9
	%	4.8	6.5	6.9	9.0	10.6	11.0	11.5
Engine	Sales	1,219.6	1,645.7	2,522.1	2,771.5	3,256.5	3,764.5	4,208.7
	Chg	27.8	34.9	53.2	9.9	17.5	15.6	11.8
	%	9.7	10.6	12.6	13.1	14.5	15.6	16.3
Electro-electric systems	Sales	1,056.5	1,453.4	1,924.5	2,712.1	3,205.4	3,670.4	4,066.0
	Chg	30.4	37.6	32.4	40.9	18.2	14.5	10.8
	%	8.4	9.4	9.6	12.8	14.2	15.2	15.8
Construction equipment	Sales	1,197.9	1,512.0	1,768.6	1,190.4	1,722.5	2,065.3	2,244.9
	Chg	13.9	26.2	17.0	-32.7	44.7	19.9	8.7
	%	9.5	9.7	8.9	5.6	7.7	8.6	8.7
Other	Sales	101.8	126.5	187.5	144.2	147.9	164.1	178.3
	Chg	-16.0	24.2	48.3	-23.1	2.6	10.9	8.7
	%	0.8	0.8	0.9	0.7	0.7	0.7	0.7
Total	Sales	12,554.8	15,533.0	19,957.1	21,142.2	22,507.2	24,118.7	25,774.9
	Chg	21.3	23.7	28.5	5.9	6.5	7.2	6.9

Source: HHI, Woori I&amp;S Research Center estimates

## RIM valuation

(Units: Wbn, won)

	2010E	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Net profit	2,707	3,064	3,213	3,588	3,897	4,478	4,822	5,193	5,593	6,024	6,487	6,986
Shareholder's equity	11,553	14,374	17,285	20,570	24,103	28,217	32,454	36,912	41,602	46,532	51,711	57,150
Forecast ROE (FROE)	25.3%	23.6%	20.3%	19.0%	17.4%	17.1%	15.9%	15.0%	14.2%	13.7%	13.2%	12.8%
Spread (FROE-COE)	14.1%	12.4%	9.1%	7.8%	6.2%	5.9%	4.7%	3.8%	3.0%	2.5%	2.0%	1.6%
Residual income	1,511	1,612	1,441	1,468	1,396	1,548	1,425	1,309	1,196	1,088	986	890
Cost of equity (COE)	11.2%											
Beta	1.2											
Market risk premium (Rm-Rf)	6.0%											
Risk-free rate (Rf)	4.0%											
Beginning shareholder's equity	9,808.4											
PV of forecast period RI	9,158.2											
PV of continuing value	1,261.8											
<b>Equity value (C+P)</b>	<b>20,228.4</b>											
No of shares (common, mn)	76.0											
Fair price (C)		<b>295,973</b>										
Current price (C)		232,000										
Upside (-downside)		27.6%										
Implied P/B (x)		2.0										
Implied P/E (x)		8.3										

Note: RIM (Residual Income Model) is a cash flow approach that yields a fair shareholder value (value of equity) by adding shareholders' equity and present value of residual income (meaning income excluding cost of equity).

Value of equity = shareholders' equity + sum of present value of future residual income

\* Residual income (RI) = NP (t) - shareholders' equity(t-1) \* cost of equity (t) = shareholders' equity (t-1) \* (ROEt - COEt)

Woori I&S uses RIM as our primary valuation model as RIM is an objective model that minimizes subjectivity of valuation indicators while producing same results as DDM (dividend discount model) and DCF.

## Market risk premium assessment guidelines

	Mega cap	Large cap	Mid cap	Small cap
Criteria	Market cap of W10tn or higher + credit rating of 'AAA' or higher	Market cap of W1-10tn + credit rating of 'A0' or higher	Market cap of W200bn-1tn + credit rating of 'BBB+' or higher	Market cap of less than W200bn + credit rating of 'BBB-' or higher
Risk premium	5.2%	6.0%	7.0%	8.0%

\* Risk Free Rate = 4.0% (standardized)

### Non-shipbuilding units to grow sharply, accounting for 63.3% of 2010 sales

Shipbuilding should take a smaller portion of HHI's sales going forward, while non-shipbuilding should expand further. We now forecast 2010 shipbuilding sales of W8,258.4bn (down 8.3% y-y), offshore W3,536.0bn (up 3.3% y-y), plant W2,380.5bn (up 25.4% y-y), engine W3,256.5bn (up 17.5% y-y), electro-electric systems W3,205.4bn (up 18.2% y-y), and construction equipment W1,722.5bn (up 44.7% y-y). Sales break down as: shipbuilding 36.7%, offshore 15.7%, plant 10.6%, engine 14.5%, electro-electric 14.2%, and construction equipment 7.7%. Overall, we expect non-shipbuilding sales to account for 63.3% in 2010, vs 54.5% in 2008 and 57.4% in 2009.

Longer term, we expect HHI to become not only the number-one shipyard, but also to transform into the number-one heavy industry play in the world. In addition, it has made aggressive investments in new growth areas, such as solar energy, wind power, and robotics. For example, secured a deal to build a wind power generation complex in Sindh, Pakistan, in January, and entered the Japanese housing solar cell market in March.

Sluggish margins at the shipbuilding unit are being offset by the non-shipbuilding units. Indeed, non-shipbuilding accounted for more than 80% of operating profit in 2009, and this trend will likely continue through 2010. We expect 1Q10 sales of W5,236.5bn (down 4.7% y-y), operating profit W596.1bn (up 26.5% y-y), and net profit W637.4bn (up 75.1% y-y).

### Quarterly earnings, by division

(Units: Wbn, %)

		2008				2009			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Shipbuilding	Sales	2,159.9	2,213.2	2,156.9	2,554.9	2,411.6	2,276.5	2,124.7	2,189.8
	OP	420.0	334.6	134.3	177.8	67.5	58.9	114.2	291.8
	OP margin	19.4	15.1	6.2	7.0	2.8	2.6	5.4	13.3
Offshore	Sales	506.6	604.7	666.2	1,317.6	1,089.2	863.8	745.4	725.0
	OP	52.9	62.5	10.3	163.3	117.2	109.7	152.6	83.2
	OP margin	10.4	10.3	1.5	12.4	10.8	12.7	20.5	11.5
Plant	Sales	248.8	306.2	293.0	526.4	341.7	420.5	518.6	617.2
	OP	4.4	-54.5	-48.9	116.0	20.9	61.0	74.8	88.7
	OP margin	1.8	-17.8	-16.7	22.0	6.1	14.5	14.4	14.4
Engine	Sales	442.4	546.4	687.3	845.9	679.9	762.5	629.5	699.6
	OP	99.3	120.9	184.5	208.8	212.2	221.3	178.3	196.7
	OP margin	22.4	22.1	26.8	24.7	31.2	29.0	28.3	28.1
Electro-electric systems	Sales	424.6	480.8	484.3	534.8	710.3	666.6	595.8	739.4
	OP	72.5	82.7	88.6	115.8	161.2	137.5	73.6	80.8
	OP margin	17.1	17.2	18.3	21.7	22.7	20.6	12.4	10.9
Construction equipment	Sales	535.8	514.0	501.1	217.7	221.4	305.4	338.3	325.3
	OP	58.0	53.9	41.3	-39.9	-43.1	13.7	6.3	-6.5
	OP margin	10.8	10.5	8.2	-18.3	-19.5	4.5	1.9	-2.0
Other (incl common expense)	Sales	35.9	43.7	54.3	53.6	39.6	35.7	33.5	35.4
	OP	-67.6	-52.7	-66.1	-66.9	-64.6	-62.3	-68.1	-55.0
Total	Sales	4,354.1	4,709.0	4,843.2	6,050.9	5,493.6	5,331.0	4,985.8	5,331.7
	OP	639.6	547.5	344.1	675.0	471.4	539.8	531.8	679.7
	OP margin	14.7	11.6	7.1	11.2	8.6	10.1	10.7	12.7

Source: HHI, Woori I&amp;S Research Center

### Quarterly earnings

(Units: Wbn, %)

	1Q09	2Q09	3Q09	4Q09	1Q10E	2Q10F	3Q10F	4Q10F
Sales	5,493.6	5,331.0	4,985.8	5,331.7	5,236.5	5,459.9	5,789.1	6,021.7
OP	471.4	539.8	536.6	674.8	596.1	651.5	592.5	751.7
Pre-tax	633.1	471.1	698.8	845.0	840.9	922.3	868.4	940.2
NP	498.3	393.1	533.8	721.3	637.4	699.1	658.2	712.7

Source: HHI, Woori I&amp;S Research Center

### Order receipts to exceed 2010 target of US\$17.7bn

HHI targets 2010 orders of US\$17.7bn (up 65.1% y-y), which we believe is achievable given solid order flows for the non-shipbuilding divisions. Although shipbuilding orders fell sharply in 2009, they are picking up again in 2010. And although we expect margins in shipbuilding to continue to narrow given the recent fall in newbuilding prices, the non-shipbuilding divisions should spearhead longer-term bottom-line growth, backed by solid order flows and strong unit prices.

Non-shipbuilding orders reached 90.9% of the company's 2009 order target excluding shipbuilding and engines. Meanwhile, shipbuilding orders have been cancelled recently, but we have already reflected this in our 2010 forecasts.

Order receipts turned to a rising trend in January, coming in at US\$943mn, and order momentum continued through February. As of end-January, total order backlog stood at US\$50.5bn, breaking down as: shipbuilding US\$26.11bn, offshore & engineering US\$9.67bn, industrial plant US\$7.33bn, engine & machinery US\$5.50bn, and electro-electric systems US\$1.89bn. This translates to more than two years' work, which should boost earnings.

### 2009 results and 2010 guidance

Division	Order receipts (US\$m)		
	2009 results	2010 target	Chg (%)
Shipbuilding	444	4,030	807.7
Offshore & engineering	2,352	4,200	78.6
Industrial plant	2,826	2,000	-29.2
Engine & machinery	1,452	2,300	58.4
Electro electric systems	2,556	3,636	42.3
Construction equipment	1,105	1,559	41.1
<b>Total</b>	<b>10,735</b>	<b>17,725</b>	<b>65.1</b>

Note: Ships completed on-shore included in offshore unit  
Source: HHI

### New orders for 2010

Released	Division	Detail
Jan 15	Electro-electric systems	<ul style="list-style-type: none"> <li>Making main body and port of vacuum container, core component for International Thermonuclear Experimental Reactor (ITER); contract amount about W150bn</li> <li>HHI plans to ship two out of nine sections for vacuum container main body and 35 of 53 sets of ports over the following seven years (till end-Dec 2016)</li> </ul>
Jan 21	Electro electric systems	<ul style="list-style-type: none"> <li>Signed MOU to build 50MW wind power plants in Sindh, southwestern Pakistan; 30 units of 1.65MW wind power plants to be supplied by end-2010</li> <li>Annual power production of 150,000 MWh likely</li> </ul>
Feb 8	Offshore & engineering	<ul style="list-style-type: none"> <li>Signed FPSO contract with ENI Norge AS (Norway) to supply 1.0mn bbl cylindrical FPSO (largest-ever)</li> <li>Order amount W1,290.7bn; to be installed by end-2013</li> </ul>
Feb 23	Industrial plant	<ul style="list-style-type: none"> <li>Held signing ceremony for gas field project in Shwe, Myanmar; construction to be implemented on turn-key basis</li> <li>To build one 40,000-ton offshore gas platform, offshore production facility, offshore pipeline, ground terminal and ground station</li> <li>Total amount US\$1.4bn (about W1.6tn); construction to be completed by Apr 2013</li> </ul>
Mar 5	Shipbuilding	<ul style="list-style-type: none"> <li>Won three mid-sized bulk carrier orders from Greek client; contract amount US\$120mn (W140bn); to be delivered end-2011</li> <li>Negotiations underway for one large tanker and one large bulk carrier</li> </ul>

Source: Press reports and company data

## Monthly new orders by division

(Units: \$mn)

	Jan 2009	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2010
Shipbuilding	0	0	0	0	0	4	251	126	22	41	0	0	0
Offshore & engineering	90	11	14	23	9	32	58	5	29	2,067	1	13	30
Industrial plant	30	24	18	7	32	110	1,002	11	1,471	3	51	67	141
Engine & machinery	298	50	228	34	110	187	129	60	103	73	151	29	259
Electro-electric systems	368	225	268	244	216	228	171	179	190	197	204	66	366
Construction equipment	77	77	85	84	86	85	80	102	128	125	107	69	147
<b>Total</b>	<b>863</b>	<b>387</b>	<b>613</b>	<b>392</b>	<b>453</b>	<b>646</b>	<b>1,691</b>	<b>483</b>	<b>1,943</b>	<b>2,506</b>	<b>514</b>	<b>244</b>	<b>943</b>

Source: HHI, Woori I&amp;S Research Center

## Monthly order backlog, by division

(Units: \$mn)

	Jan 2009	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2010
Shipbuilding	27,902	28,253	27,521	28,253	25,994	26,054	25,564	24,865	24,067	24,865	22,435	26,681	26,113
Offshore & engineering	8,824	7,311	6,990	7,311	6,461	5,503	5,332	5,118	4,901	6,779	6,536	9,714	9,675
Industrial plant	3,233	3,178	2,716	3,178	2,540	2,539	3,401	3,270	4,626	4,498	4,386	7,191	7,330
Engine & machinery	6,086	5,806	5,832	5,806	5,553	5,078	4,999	4,898	4,786	4,608	4,422	5,722	5,498
Electro-electric systems	1,603	1,592	1,651	1,592	1,756	1,782	1,809	1,836	1,828	1,805	1,809	1,839	1,890
Construction equipment	47,648	46,140	44,710	46,140	42,304	40,956	41,105	39,987	40,208	42,555	39,588	51,147	50,506

Note: Changed from sales to delivery basis starting Dec 2009; order backlog in terms of sales stood at \$37.9bn in December 2009 and \$36.9bn in January 2010

Source: HHI, Woori I&amp;S Research Center

## Monthly sales, by division

(Units: Wbn)

	Jan 2009	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2010
Shipbuilding	762	752	898	835	700	741	681	663	781	740	742	708	685
Offshore & engineering	326	408	355	319	286	259	235	234	276	220	271	235	210
Industrial plant	118	106	118	151	121	148	184	187	148	166	205	246	325
Engine & machinery	215	243	222	209	254	300	218	186	226	287	195	218	179
Electro-electric systems	218	233	259	216	219	232	168	176	252	218	225	296	252
Construction equipment	78	74	69	78	137	91	85	114	139	137	115	73	157
<b>Total</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>12</b>	<b>11</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>11</b>	<b>13</b>	<b>11</b>
Shipbuilding	1,730	1,829	1,935	1,820	1,728	1,783	1,582	1,571	1,833	1,779	1,764	1,788	1,819

Source: HHI, Woori I&amp;S Research Center

## Global peer analysis I — earnings

(Units: \$mn)

Company		HHI	DSME	SHI	HMD	IHI Corp	Mitsubishi Heavy Ind	Guangzhou Shipyard Int'l	China State Shipbuilding
Share price (Mar 25, \$)		200.7	18.3	22.5	132.8	1.8	4.1	3.5	10.2
Market cap		15,255.3	3,506.2	5,190.8	2,655.9	2,586.3	13,950.7	1,456.8	6,745.5
		Korea	Korea	Korea	Korea	Japan	Japan	China	China
Sales	2008	15,523	8,614	8,295	2,959	13,869	33,729	1,005	3,972
	2009E	16,444	10,910	11,482	3,254	14,018	32,911	1,033	4,216
	2010F	19,734	11,505	11,935	3,526	13,388	32,824	986	4,326
OP	2008	1,716	802	587	417	257	1,058	50	553
	2009E	1,729	600	696	339	395	701	95	499
	2010F	2,273	717	936	423	383	874	110	531
EBITDA	2008	2,020	915	774	451	715	2,586	64	632
	2009E	2,075	729	922	387	874	2,494	152	774
	2010F	2,738	842	1,155	477	885	2,674	146	663
NP	2008	1,755	312	488	404	-74	242	118	599
	2009E	1,670	506	587	332	110	145	91	472
	2010F	2,374	584	842	402	144	278	94	489
EPS (\$)	2008	23.1	1.6	2.1	20.2	-0.1	0.1	0.2	0.9
	2009E	22.0	2.6	2.5	16.6	0.1	0.0	0.2	0.7
	2010F	31.2	3.1	3.6	20.1	0.1	0.1	0.2	0.8
BPS (\$)	2008	54.6	8.4	7.5	87.9	1.3	3.7	0.8	2.7
	2009E	97.4	11.6	10.1	111.5	1.5	4.2	0.9	3.6
	2010F	130.5	14.2	13.4	129.0	1.6	4.2	1.1	3.9
Net debt (-net cash)	2008	-1,900	-622	-1,814	-1,102	3,281	11,825	-578	-1,310
	2009E	115	821	-1,066	-1,396	3,644	12,556	N/A	N/A
	2010F	137	966	-703	-1,312	3,133	13,315	N/A	N/A

Source: Bloomberg, Woori I&amp;S Research Center estimates

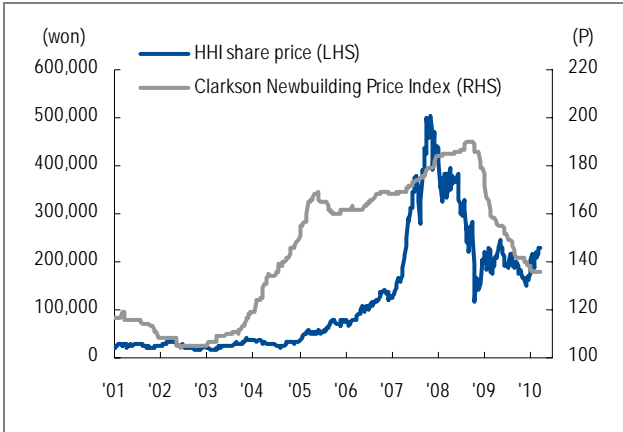
## Global peer analysis II — valuation

Company		HHI	DSME	SHI	HMD	IHI Corp	Mitsubishi Heavy Ind	Guangzhou Shipyard Int'l	China State Shipbuilding
P/E (x)	2008	6.7	7.3	8.3	5.2	N/A	41.3	3.8	6.1
	2009E	6.1	5.8	8.3	5.4	27.1	94.0	19.1	14.4
	2010F	6.4	6.0	6.2	6.6	18.0	48.7	16.1	12.2
P/B (x)	2008	2.8	1.4	2.3	1.2	0.9	0.8	1.1	2.1
	2009E	1.4	1.3	2.1	0.8	1.2	1.0	3.8	2.9
	2010F	1.5	1.3	1.7	1.0	1.1	1.0	3.2	2.6
EV/EBITDA (x)	2008	4.9	1.8	2.9	2.2	7.0	8.6	2.9	4.0
	2009E	5.0	5.2	4.2	1.1	7.7	11.5	5.9	7.3
	2010F	5.6	5.3	3.9	2.8	7.6	10.7	6.2	8.5
ROE (%)	2008	40.7	21.0	30.4	19.4	-3.6	1.8	31.6	36.5
	2009E	27.9	25.1	26.4	15.8	4.3	1.1	20.5	21.9
	2010F	25.3	23.7	30.2	16.7	6.2	2.0	18.4	19.3
ROA (%)	2008	10.7	3.3	3.4	7.3	-0.5	0.5	7.7	10.0
	2009E	8.6	3.5	2.4	5.1	2.7	1.1	6.2	6.2
	2010F	10.5	3.8	3.3	6.0	2.2	1.5	5.8	6.9
Div yield (%)	2008	2.5	3.3	2.2	3.7	0.0	2.0	7.2	2.6
	2009E	2.0	2.9	2.1	2.9	1.1	1.1	1.6	1.8
	2010F	1.7	2.4	2.9	2.0	1.5	1.2	1.1	1.3

Source: Bloomberg, Woori I&amp;S Research Center estimates

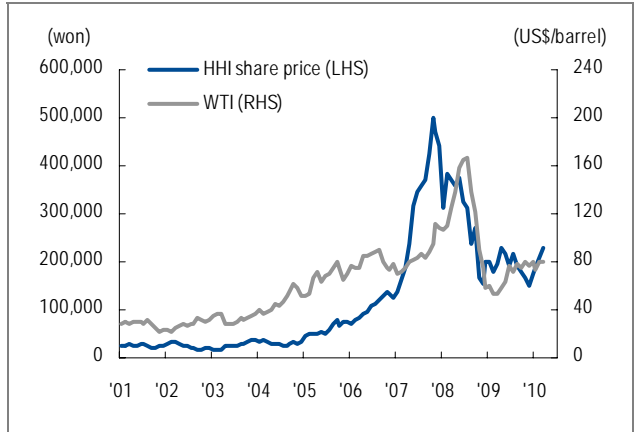
## Key drivers & share price trend

HHI share price vs Clarkson newbuilding price index



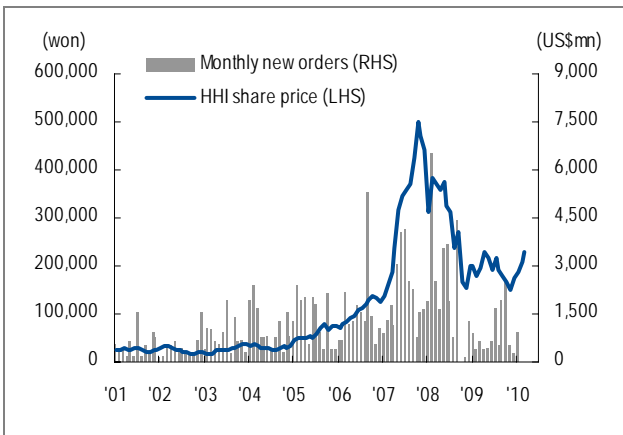
Source: Clarkson, Dataguide Pro, Woori I&S Research Center

HHI share price vs crude oil price (WTI)



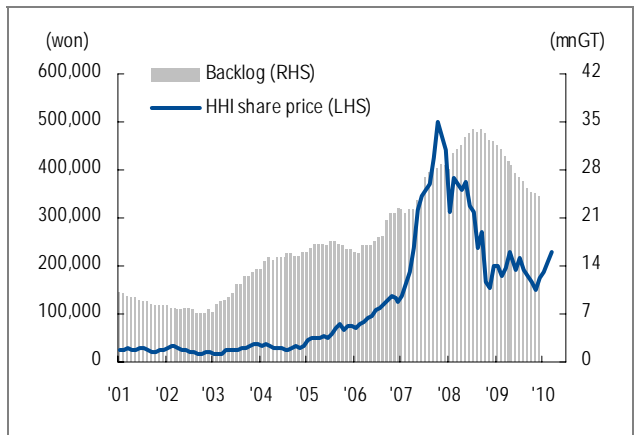
Source: Bloomberg, Dataguide Pro, Woori I&S Research Center

HHI share price vs monthly new orders



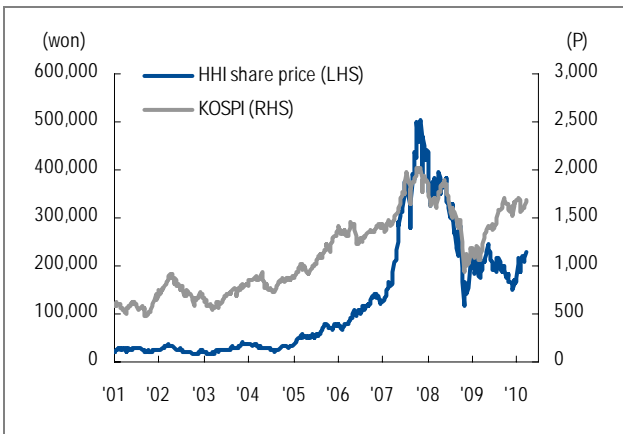
Source: HHI, Dataguide Pro, Woori I&S Research Center

HHI share price vs backlog



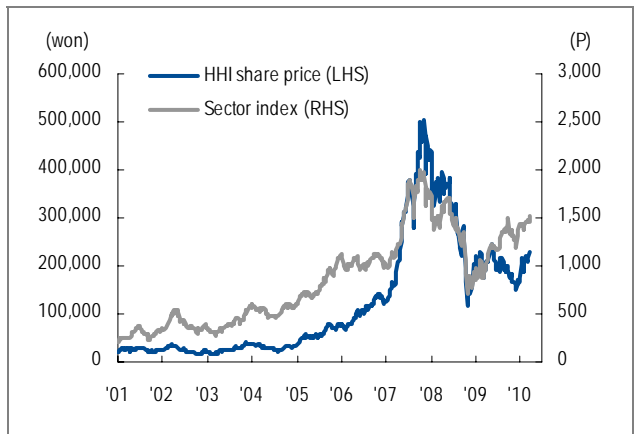
Source: Industry data, Dataguide Pro, Woori I&S Research Center

HHI share price vs Kospi



Source: Dataguide Pro, Woori I&S Research Center

HHI share price vs transportation equipment sector index



Source: Dataguide Pro, Woori I&S Research Center

INCOME STATEMENT					VALUATION INDEX				
(Wbn)	2009/12A	2010/12E	2011/12F	2012/12F		2009/12A	2010/12E	2011/12F	2012/12F
Sales	21,142.2	22,507.2	24,118.7	25,774.9	EV/ EBITDA (X)	5.0	5.6	5.4	5.4
Growth (%)	5.9	6.5	7.2	6.9	EV/ EBIT (X)	6.0	6.8	6.6	6.6
Cost of sales	17,997.4	18,951.6	20,371.1	21,923.8	Price/ Earning (FD) (X)	6.1	6.4	5.7	5.4
Gross profit	3,144.8	3,555.7	3,747.6	3,851.0	Adjusted PER (X)	7.0	6.7	6.1	5.9
Gross margin (%)	14.9	15.8	15.5	14.9	Price/ Gross Cash Flow (X)	2.8	8.7	5.6	5.2
SG&A	922.2	963.8	1,032.7	1,105.1	Price/ Book Value (X)	1.4	1.5	1.2	1.0
EBITDA	2,668.2	3,122.2	3,294.2	3,366.5	Price/ Sales (X)	0.6	0.8	0.7	0.7
EBITDA margin (%)	12.6	13.9	13.7	13.1	PER/ EPS growth (X)	0.4	0.7	0.7	0.5
Depr & amort	445.7	530.4	579.3	620.5	PER/ EBITPS growth (X)	0.8	0.9	0.6	0.3
Operating profit	2,222.6	2,591.9	2,714.9	2,746.0	PER/ EBITDAPS growth (X)	0.8	0.9	0.6	0.4
OP margin (%)	10.5	11.5	11.3	10.7	Enterprise Value (Wbn)	13,333.9	17,560.4	17,893.1	18,015.0
Non-operating Income	3,309.6	2,015.1	2,074.8	2,000.5	EPS CAGR (3-Yr, FD) (%)	14.4	9.8	8.3	11.7
Non-operating Expenses	2,884.1	1,035.1	747.5	626.6	EBITPS CAGR (3-Yr, FD) (%)	7.3	7.5	10.2	16.8
Net interest inc/ (exp)	133.1	11.4	1.1	-14.7	EBITDAPS CAGR (3-Yr, FD) (%)	8.1	7.5	9.6	15.0
Pre-tax profit from Continuing Operations	2,648.1	3,571.8	4,042.2	4,119.8	EBITPS (FD) (W)	29,244	34,104	35,722	36,131
Pretax margin (%)	12.5	15.9	16.8	16.0	EBITDAPS (FD) (W)	35,108	41,082	43,345	44,296
Tax	501.6	864.4	978.2	906.4	Fully diluted EPS (W)	28,243	35,624	40,316	42,283
Profit from Continuing Operations	2,146.5	2,707.4	3,064.0	3,213.5	Adjusted EPS (FD) (W)	24,935	34,298	37,825	38,844
Net profit	2,146.5	2,707.4	3,064.0	3,213.5	CFPS (W)	61,180	26,234	41,163	43,731
Net margin (%)	10.2	12.0	12.7	12.5	BVPS (W)	125,262	148,799	186,419	225,132
Adjusted Net Profit	1,895.0	2,606.7	2,874.7	2,952.1	Sales PS (W)	278,187	296,148	317,351	339,143

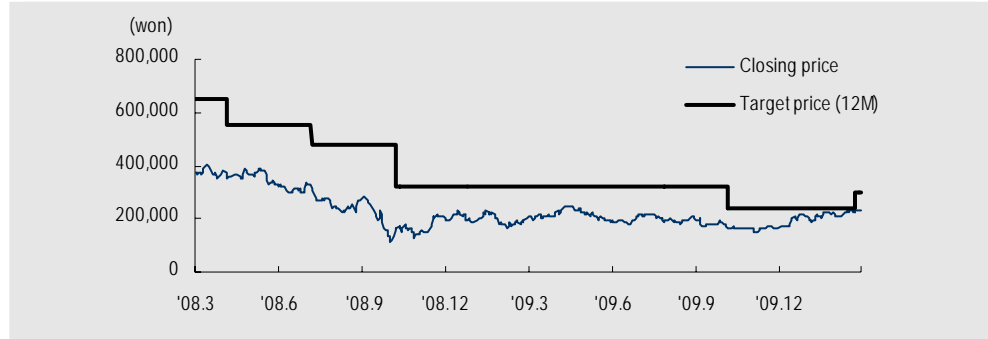
CASH FLOW STATEMENT					RIM & EVA				
(Wbn)	2009/12A	2010/12E	2011/12F	2012/12F		2009/12A	2010/12E	2011/12F	2012/12F
Operating Cash Flow	-958.0	1,609.6	2,673.4	2,854.3	<b>RIM</b>				
Net profit	2,146.5	2,707.4	3,064.0	3,213.5	Spread (FROE-COE) (%)	16.0	14.1	12.4	9.1
+ Depr & amort	445.7	530.4	579.3	620.5	Residual Income	1,233.1	1,511.2	1,612.1	1,440.6
+ Associates' loss (-profits)	-285.0	-322.1	-328.5	-335.1	12M RIM-based Target Price(W)	296,017			
+ FC translation loss (-profit)	32.4	189.1	78.8	0.0	<b>Economic Value Added</b>				
+ Loss (-gain) on tangible asset disp	-58.4	0.0	0.0	0.0	Invested capital	6,539.9	7,352.9	8,826.3	10,227.8
Gross Cash Flow	4,649.7	1,993.8	3,128.4	3,323.5	NOPAT	1,801.6	1,964.6	2,057.9	2,141.9
- Incr (+dec) in working capital	-5,607.7	-384.2	-455.0	-469.3	ROIC (%)	40.9	28.3	25.4	22.5
Investing Cash Flow	-1,230.6	-1,405.9	-2,763.7	-2,673.0	ROIC - WACC (%)	31.9	19.8	16.6	13.5
Decr. in Tangible Assets	128.2	0.0	0.0	0.0	EVA	2,086.2	1,454.8	1,464.4	1,380.8
Incr. in Tangible Assets (CAPEX)	-1,178.9	-1,214.4	-2,537.6	-2,440.6	<b>Discounted Cash Flow</b>				
+ Disp (-acq) of inv assets	-259.3	0.0	0.0	0.0	EBIT	2,222.6	2,591.9	2,714.9	2,746.0
Free Cash Flow	-2,136.8	395.2	135.8	413.6	+ Depreciation	445.7	530.4	579.3	620.5
Net Cash Flow	-2,188.6	203.7	-90.3	181.3	- CAPEX	1,178.9	1,214.4	2,537.6	2,440.6
Financing Cash Flow	586.3	-189.8	256.9	-246.8	Free cash flow for DCF valuation	-2,676.3	529.1	-773.3	-560.6
Equity financing	0.0	0.0	0.0	0.0	<b>Weighted Average Cost of Capital (%)</b>				
Debt financing	586.3	-189.8	256.9	-246.8	Cost of debt (tax adjusted)	6.2	5.8	5.8	6.0
+ Inc (-dec) in Cash & St. financial goods	-1,602.3	13.9	166.6	-65.6	Cost of equity (COE)	11.9	11.2	11.9	12.0
Net debt/(cash) end	147.9	156.4	489.1	611.0	WACC	9.0	8.5	8.8	9.0

BALANCE SHEET					PROFITABILITY & STABILITY				
(Wbn)	2009/12A	2010/12E	2011/12F	2012/12F		2009/12A	2010/12E	2011/12F	2012/12F
Cash & St. Financial Goods	741.6	755.6	922.2	856.6	ROE (%)	27.9	25.3	23.6	20.3
Accounts Receivable	4,973.5	5,294.7	5,673.7	6,063.3	ROA (%)	8.6	10.5	10.9	10.3
Total current assets	10,609.9	11,261.0	12,179.8	12,887.3	ROIC (%)	40.9	28.3	25.4	22.5
Tangible Assets	8,145.5	8,874.0	10,869.8	12,721.7	EBITDA/ equity (%)	27.2	27.0	22.9	19.5
Investment assets	4,866.4	5,188.7	5,517.4	5,852.8	EBITDA/ asset (%)	10.7	11.7	11.0	10.3
Non-current Assets	14,262.7	15,331.1	17,691.4	19,922.2	Dividend Yield (%)	2.0	1.7	2.2	2.2
Total Asset	24,872.6	26,592.1	29,871.2	32,809.5	Cash dividends(Wbn)	212.2	242.5	303.1	303.1
Short-term debt	585.3	610.5	639.7	668.9	Cash DPS (W)	3,500	4,000	5,000	5,000
Accounts Payable	1,427.6	1,489.0	1,560.1	1,631.5	Net debt(cash)/ equity (%)	1.5	1.4	3.4	3.5
Total current Liabilities	12,909.1	12,819.9	12,728.2	12,648.2	Debt/ equity (%)	153.6	130.2	107.8	89.8
Long-term debt	304.2	301.4	771.7	798.7	Net interest exp/ sales (%)	-0.6	-0.1	0.0	0.1
Long-term allowance	238.0	245.7	254.5	263.2	Interest coverage (X)	-16.7	-227.4	-2,430.7	186.8
Non-current Liabilities	2,155.1	2,219.5	2,768.8	2,876.7	Current Ratio (%)	82.2	87.8	95.7	101.9
Total Liabilities	15,064.2	15,039.3	15,497.0	15,524.9	Quick Ratio (%)	67.2	71.8	78.4	83.3
Paid-in Capital	380.0	380.0	380.0	380.0	Total shares (mn)	76	76	76	76
Capital surplus	2,869.6	2,869.6	2,869.6	2,869.6	Par value (W)	5,000	5,000	5,000	5,000
Retained earnings	6,503.9	8,999.2	11,820.7	14,731.1	Share price (W)	173,500	229,000	229,000	229,000
Total shareholder's Equity	9,808.4	11,552.7	14,374.2	17,284.6	Market cap (Wbn)	13,186	17,404	17,404	17,404

<Rating and Target Price Update >

Company	Code	Date	Rating	Target Price
HHI	009540.KS	2010.03.25	Buy	W300,000(12M)
		2009.10.30	Buy	W240,000(12M)
		2008.10.31	Buy	W320,000(12M)
		2008.07.30	Buy	W480,000(12M)
		2008.04.29	Buy	W550,000(12M)



WOORI Investment & Securities Stock Ratings

1. Period: Uniform 12-month
2. Rating System: Based on a stock's absolute return from the date of publication,
  - Strong Buy: high conviction Buy rated stocks
  - Buy: greater than +15%
  - Hold: 0% and +15%
  - Reduce: less than 0%

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