

Hyundai Heavy Industry
 (009540.KS)

To become top global heavy industry play with high growth momentum

Buy (Maintain)

TP W440,000 (Raise)
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Maintain Buy and raise target price to W440,000

- We raise our target price from W370,000 to W440,000 thanks to better-than-expected 3Q earnings and the likelihood that strong earnings momentum will continue in 4Q. Moreover, we expect Hyundai Heavy Industries (HHI) to benefit from stronger new order momentum, rising newbuilding prices, and high earnings growth at the non-shipbuilding divisions in 2011. Delivery rescheduling seems to have stopped and delivery rates should rise in line with recovering new orders. Thus, we expect HHI to post solid earnings throughout 2011.
- We expect HHI to transform from being the number-one global shipbuilder to the number-one heavy industry play over the mid- to long term. Despite the surge in HHI's share price thanks to its solid earnings, we believe the shares offer additional upside in terms of valuations. Our target of W440,000 is based on a 2010 P/E of 10.0x and P/B of 2.8x.

3Q10 operating profit of W798.8bn (up 50.2% y-y) and operating margin of 15.0%

- 3Q sales reached W5.3tn (up 7.0% y-y), operating profit W798.8bn (up 50.2% y-y), net profit W863.4bn (up 61.7% y-y), and operating margin 15.0%.
- The shipbuilding division's sales portion declined to 34.1%, its lowest ever. We expect the sales exposure of non-shipbuilding divisions to continue to expand going forward, while new businesses such as solar cell and wind turbines are also likely to become new catalysts for the company.

2010 year-to-date new orders of US\$14.0bn, end-September backlog of US\$51.4bn

- HHI's cumulative new orders through 3Q improved 87.1% y-y to US\$14.0bn, which breaks down to shipbuilding US\$3.1bn, offshore US\$2.7bn, plants US\$1.9bn, engine US\$1.9bn, electro electric US\$2.9bn, and construction equipment US\$1.5bn. HHI's backlog as of end-3Q stood at US\$51.4bn, vs US\$51.1bn at end-2009, which is equivalent to more than two years of construction.

[As of Oct 29, 2010]

- Share price: W366,500 (common)
- Market cap: \$24,963.26mn
- Capital: W380.0bn
- 52W high: W370,000
- low: W148,500
- Foreign ownership: 19.1%
- Dividend yield (2009): 0.95%

Earnings forecast

(Units: Wbn, Won, x, %)

		2009	2010E	2011F	2012F
Sales	- Revised	21,142	21,723.2	23,691.2	25,689.5
	- Previous		21,646.3	23,581.1	25,155.4
	- Change		0.4	0.5	2.1
Operating profit	- Revised	2,223	3,190.7	3,395.9	3,578.1
	- Previous		2,955.8	3,038.4	3,084.4
	- Change		7.9	11.8	16.0
EBITDA		2,668	3,719.4	3,972.0	4,195.3
Net profit		2,146	3,380.0	3,572.2	3,950.9
EPS	- Revised	28,243	44,473	47,003	51,985
	- Previous		41,311	43,539	46,475
	- Change		7.7	8.0	11.8
BPS		125,262	157,648	200,360	247,978
P/E		6.1	8.2	7.8	7.1
P/B		1.4	2.3	1.8	1.5
EV/EBITDA		5.0	7.5	7.2	6.8
ROE		27.9	30.7	25.8	22.9

Source: Woori I&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.

Maintain Buy, revise up target price to W440,000

We maintain a Buy rating on HHI and revise up our target price from W370,000 to W440,000. HHI's 3Q earnings beat expectations, and the positive earnings trend should continue in 4Q. We expect new order momentum and newbuilding prices to improve in 2011, as well as high growth at the non-shipbuilding divisions. Issues regarding delivery delays due to rescheduling have been resolved and delivery rates are set to rise in line with recovering new orders. We believe HHI's earnings growth will continue after 2011.

Given earnings stability at the shipbuilding division and the growth of non-shipbuilding divisions such as the offshore, plants, electro electric systems, and construction equipment divisions, we upgrade our mid- to long-term earnings outlook. Specifically, we raise our 2010 and 2011 sales estimates by 0.4% and 0.5%, respectively, and operating profit estimates by 7.9% and 11.8%. Accordingly, we revise up 2010 EPS by 7.7% and 2011 EPS by 8.0%. We also expect HHI to transform from being the number-one global shipbuilder to the number-one heavy industry player over the mid- to long term.

Share price surges, but still undervalued

HHI's shares have outperformed the Kospi by 45.1%p (56.0% vs 10.9%) during the last four months. However, despite the surge, we believe there the shares still offer valuation merit. In detail, the shares are currently trading at 2010 and 2011 P/Es of 8.2x and 7.8x, P/Bs of 2.3x and 1.8x, and EV/EBITDAs of 7.5x and 7.2x, respectively. Meanwhile, we expect ROE to remain stable at 30.7% in 2010 and 25.8% in 2011, and the company's debt ratio to fall to 123.0% in 2010 and 96.4% in 2011.

Our target price of W440,000 is equivalent to a 2010 P/E of 10.0x and P/B of 2.8x. Based on the company's historic valuation band, we believe there is sufficient upward potential. Our target price is based on RIM, assuming a market risk premium of 6.0%, risk free rate of 4.0%, beta of 1.2, and COE of 11.2%.

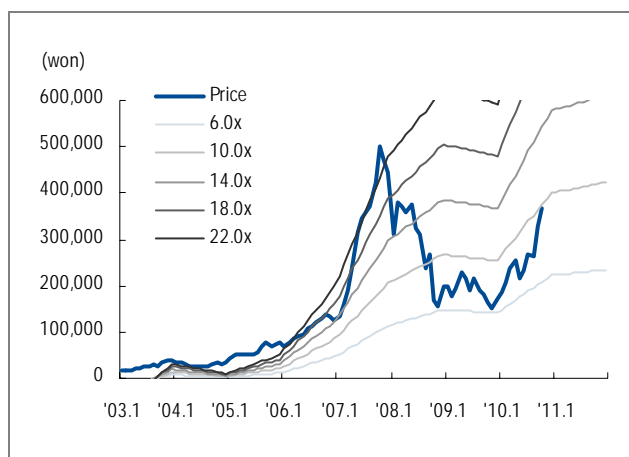
Sales trend & forecast, by division

(Units: Wbn, %)

		2006	2007	2008	2009	2010E	2011F	2012F
Shipbuilding	Sales	6,442.8	7,556.7	9,084.9	9,002.6	7,859.7	7,692.0	7,987.5
	Growth	21.0	17.3	20.2	-0.9	-12.7	-2.1	3.8
	%	51.3	48.6	45.5	42.6	36.2	32.5	31.5
Offshore	Sales	1,934.6	2,222.1	3,095.1	3,423.5	3,430.0	3,666.3	3,921.2
	Growth	31.1	14.9	39.3	10.6	0.2	6.9	7.0
	%	15.4	14.3	15.5	16.2	15.8	15.5	15.3
Plants	Sales	601.6	1,016.6	1,374.4	1,897.9	2,657.7	3,141.9	3,386.9
	Growth	-2.8	69.0	35.2	38.1	40.0	18.2	7.8
	%	4.8	6.5	6.9	9.0	12.2	13.3	13.2
Engine & machinery	Sales	1,219.6	1,645.7	2,522.1	2,771.5	2,502.6	2,792.9	3,122.5
	Growth	27.8	34.9	53.2	9.9	-9.7	11.6	11.8
	%	9.7	10.6	12.6	13.1	11.5	11.8	12.2
Electro electric systems	Sales	1,056.5	1,453.4	1,924.5	2,712.1	3,037.2	3,626.2	4,075.9
	Growth	30.4	37.6	32.4	40.9	12.0	19.4	12.4
	%	8.4	9.4	9.6	12.8	14.0	15.3	15.9
Construction equipment	Sales	1,197.9	1,512.0	1,768.6	1,190.4	2,087.9	2,607.8	3,017.3
	Growth	13.9	26.2	17.0	-32.7	7.0	24.9	15.7
	%	9.5	9.7	8.9	5.6	9.6	11.0	11.7
Other	Sales	101.8	126.5	187.5	144.2	147.9	164.1	178.3
	Growth	-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	21,723.2	23,691.2	25,689.5
	Growth	21.3	23.7	28.5	5.9	2.7	9.1	8.4

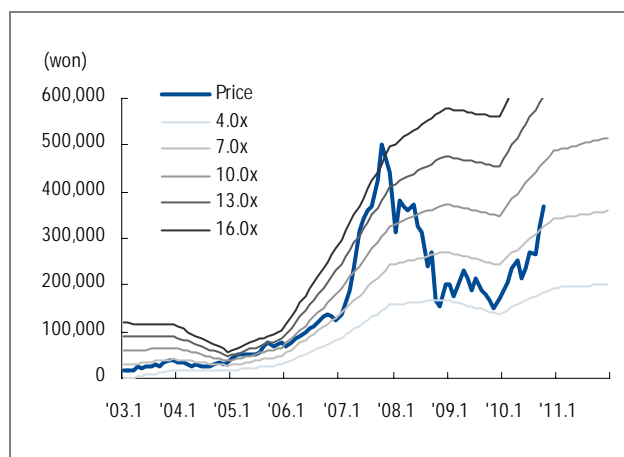
Source: HHI, Woori I&S Research Center estimates

P/E band



Source: Woori I&S Research Center

EV/EBITDA band



Source: Woori I&S Research Center

RIM valuation

(Units: Wbn, Won)

	2010E	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Net profit	3,380	3,572	3,951	4,578	5,225	6,215	6,775	7,387	8,053	8,779	9,571	10,435
Shareholder's equity	12,225	15,434	19,021	23,144	27,854	33,463	39,342	45,605	52,271	59,363	66,904	74,916
Forecast ROE (FROE)	30.7%	25.8%	22.9%	21.7%	20.5%	20.3%	18.6%	17.4%	16.5%	15.7%	15.2%	14.7%
Spread (FROE-COE)	19.5%	14.6%	11.7%	10.5%	9.3%	9.1%	7.4%	6.2%	5.3%	4.5%	4.0%	3.5%
Residual income	2,146	2,023	2,021	2,216	2,370	2,781	2,698	2,629	2,572	2,528	2,501	2,493
Cost of equity (COE)	11.2%											
Beta	1.20											
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	16,483.2											
PV of continuing value	3,766.3											
Equity value (C+P)	30,058.0											
No of shares (common, mn)	76.0											
Fair price (C)	439,796											
Current price (C)	366,500											
Upside (-downside)	20.0%											
Implied P/B (x)	2.8											
Implied P/E (x)	9.9											

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)

3Q operating profit of W798.8bn (up 50.2% y-y), operating margin of 15.0%

HHI posted 3Q sales of W5,333.7bn (up 7.0% y-y), operating profit of W798.8bn (up 50.2% y-y), net profit of W863.4bn (up 61.7% y-y), and an operating margin of 15.0%. Sales growth accelerated q-q in 3Q, while operating profit began to rise q-q.

Sales were in line with our estimate, but operating profit and net profit beat both our estimates and consensus. Operating profit surged y-y thanks to the recognition of high-priced vessels as sales and improving Chinese construction market conditions. Net profit fell slightly q-q due to a decline in interest gains and a fall in the won/dollar rate in 3Q (W1,210.3/US\$ as of end-June, W1,142.0/US\$ as of end-September). However, backed by large equity-method gains, particularly from Hyundai Oil Bank, net profit improved y-y.

3Q sales break down as follows: W1,817.7bn (down 14.5% y-y) for shipbuilding, W917.5bn (up 23.1% y-y) for offshore, W710.3bn (up 37.0% y-y) for plants, W575.6bn (down 8.6% y-y) for engine & machinery, W714.4bn (up 19.9% y-y) for electro electronics systems, W560.3bn (up 65.6% y-y) for construction equipment, and W37.9bn (up 13.5% y-y) for other divisions. As was the case last quarter, sales at the shipbuilding and engine & machinery divisions fell slightly y-y due to a decline in the forex rate and the company's delivery rate, but sales at the non-shipbuilding divisions remained stable backed by stronger demand.

The shipbuilding division's sales portion fell to 34.1%, while the offshore division's portion rose to 17.2%, plants 13.3%, electro electric systems 13.4%, and construction equipment 10.5%. Based on the company's sales structure, we expect the sales exposure of the non-shipbuilding division to continue to expand going forward. Accordingly, the shipbuilding division's operating profit portion should also decline, while the operating portion for the offshore, engine & machinery, and electro electric systems divisions should continue to grow. As can be seen, increased competitiveness at the offshore and plants divisions as well entry into new businesses such as solar cell and wind turbines should lay the foundations for HHI to transform from being the leading global shipbuilder to being the leading heavy industry company.

3Q results

(Units: Wbn, %)

	3Q09	4Q09	1Q10	2Q10	3Q10					
					Actual	y-y	q-q	Our estimate	Consensus (10/28)	Consensus (9/29)
Sales	4,985.9	5,331.7	5,306.4	5,335.2	5,333.7	7.0	0.0	5,314.2	5,254.2	5,244.4
Operating profit	531.7	674.8	880.9	775.8	798.8	48.9	3.0	736.8	722.4	700.7
Pre-tax profit	698.9	840.1	1,189.4	1,174.5	1,072.9	53.5	-8.6	988.3	940.4	877.8
Net profit	533.9	721.3	926.2	910.5	863.4	61.7	-5.2	749.2	709.1	685.3

Source: HHI, FnGuide, Woori I&S Research Center

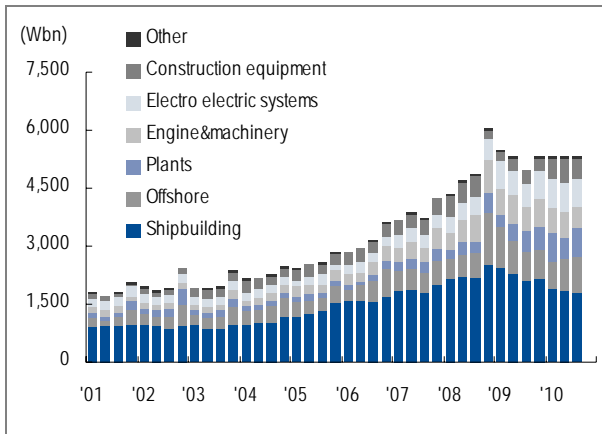
Sales breakdown

(Units: Wbn, %)

	2010 3Q			2010 2Q	2009 3Q
	Sales	y-y	q-q		
Shipbuilding	1,817.7	-14.5	-3.4	1,882.1	2,124.8
Offshore	917.5	23.1	12.5	815.6	745.4
Plants	710.3	37.0	40.0	507.3	518.6
Engine & machinery	575.6	-8.6	-12.2	655.9	629.5
Electro electric systems	714.4	19.9	-10.9	801.5	595.8
Construction equipment	560.3	65.6	-12.1	637.1	338.4
Other	37.9	13.5	6.2	35.7	33.4
Total	5,333.7	7.0	0.0	5,335.2	4,985.9

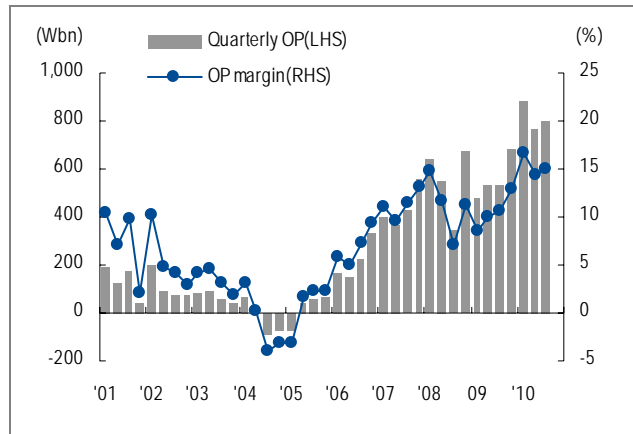
Source: HHI

Quarterly sales breakdown



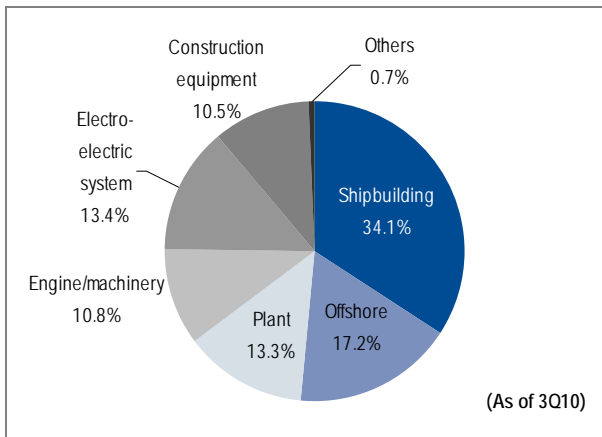
Source: HHI, Woori I&S Research Center

Quarterly operating profit and operating margin



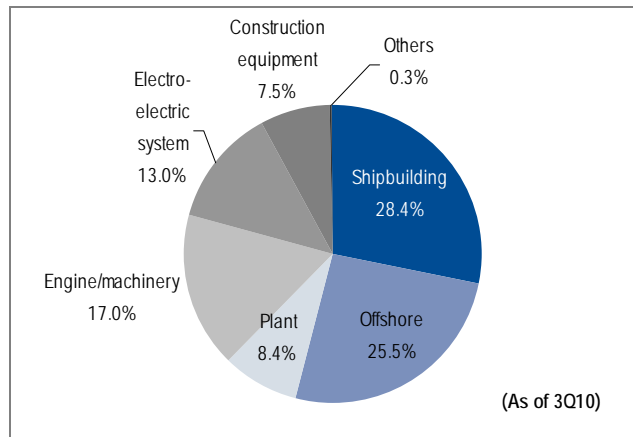
Source: HHI, Woori I&S Research Center

3Q10 sales breakdown



Source: HHI, Woori I&S Research Center

3Q10 operating profit breakdown



Source: HHI, Woori I&S Research Center

3Q10 non-operating account

(Units: Wbn, %)

	3Q10			2Q10	3Q09
	y-y	q-q			
Interest income	19.2	-54.4	-49.2	37.8	42.1
Foreign currency transaction/translation	-85.2	RR	TTL	138.4	-67.4
Equity method investments	293.3	770.3	-0.7	295.5	33.7
FX forward contracts	-32.2	RR	RR	-62.8	-16.5
Others	79.0	-54.9	TTP	-5.1	175.3
Total	274.1	63.9	-32.1	403.8	167.2

Source: HHI

3Q10 equity-method gain/loss

(Units: Wbn, %)

	3Q10			2Q10	3Q09
	y-y	q-q			
Hyundai Samho Heavy Industries	188.1	161.6	-11.6	212.8	71.9
Hyundai Oil Bank	67.3	425.8	935.4	6.5	12.8
Hyundai Merchant Marine	18.9	TTP	-42.7	33.0	-81.2
Others	19.0	-37.1	-56.0	43.2	30.2
Total	293.3	770.3	-0.7	295.5	33.7

Source: HHI

2010 year-to-date new orders of US\$14.0bn; new orders to surpass guidance

HHI's cumulative new orders improved 87.1% y-y to US\$14.0bn through 3Q, meeting 78.8% of the company's 2010 guidance (US\$17.7bn). By division, new orders break down to shipbuilding US\$3.1bn, offshore US\$2.7bn, plants US\$1.9bn, engine US\$1.9bn, electro electric US\$2.9bn, and construction equipment US\$1.5bn. In particular, order momentum was strong at the shipbuilding and engine/machinery divisions, which began to recover from 2Q. In detail, shipbuilding orders rose 662.5% y-y on: 1) a low comparison base from 2009; and 2) the strong recovery of the shipbuilding industry. Meanwhile, non-shipbuilding orders (excluding shipbuilding and engine/machinery) increased 54.3% y-y to US\$9.05bn, meeting 79.4% of 2010 guidance.

Along with the turnaround in the shipbuilding industry, HHI's backlog as of end-3Q stood at US\$51.4bn, vs US\$51.1bn at end-2009. Accordingly, worries over sales deterioration due to delivery rescheduling should fade somewhat. And, concern over slowing sales growth from 2H11 should ease.

As of end-September, order backlog broke down to US\$21.60bn for shipbuilding, US\$12.21bn for offshore, US\$8.91bn for plant, US\$6.1bn for engine/machinery, and US\$2.6bn for electro-electric system. The company's solid backlog, which is equivalent to more than two years of construction, should lead to solid earning over the mid- to long term.

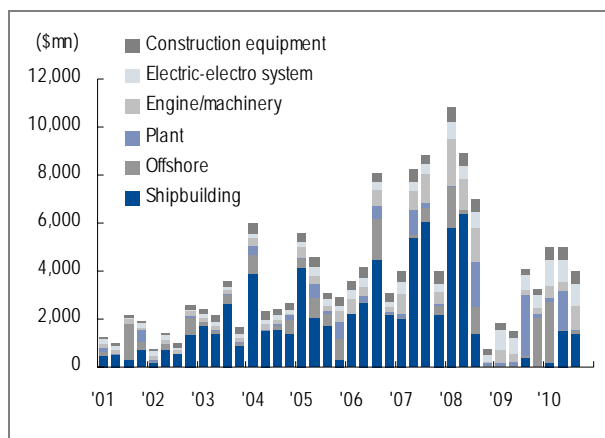
Order guidance and actual orders by division

(Units: US\$m, %)

	Sep 2010 cumulative	Sep 2009 cumulative	y-y	Guidance	% of guidance	Order backlog (based on delivery)
Shipbuilding	3,073	403	662.5	4,030	76.3	21,603
Offshore	2,726	571	905.9	4,200	64.9	12,207
Plant	1,897	2,705	-29.9	2,000	94.9	8,913
Engine/machinery	1,849	1,199	54.2	2,300	80.4	6,083
Electro-electric	2,921	2,089	39.8	3,636	80.3	2,634
Construction equipment	1,509	804	87.7	1,559	96.8	-
Total	13,975	7,471	87.1	17,725	78.8	51,440

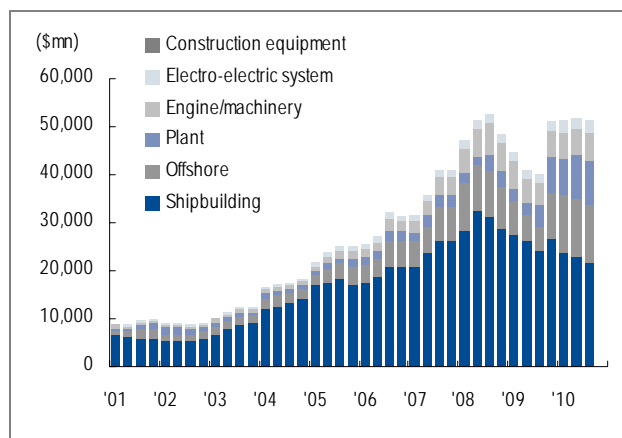
Source: HHI

Quarterly sales, by division



Source: HHI, Woori I&S Research Center

Quarterly order backlog, by division

Note: changed from sales to delivery basis starting Dec 2009
Source: HHI, Woori I&S Research Center

Monthly new orders, by division

(Units: US\$mn)

	'09.9	10	11	12	'10.1	2	3	4	5	6	7	8	9
Shipbuilding	22	41	0	0	0	0	152	790	540	162	497	842	90
Offshore & engineering	29	2,067	1	13	30	2,551	11	58	1	8	2	7	58
Industrial plant	1,471	3	51	67	141	27	34	22	6	1,595	12	0	60
Engine & machinery	103	73	151	29	259	79	110	67	213	123	318	350	330
Electro-electric systems	190	197	204	66	366	374	350	259	248	383	270	325	346
Construction equipment	128	125	107	69	147	135	197	195	180	174	179	155	147
Total	1,943	2,506	514	244	943	3,166	854	1,391	1,188	2,445	1,278	1,679	1,031

Source: HHI, Woori I&S Research Center

Monthly order backlog, by division

(Units: US\$mn)

	'09.9	10	11	12	'10.1	2	3	4	5	6	7	8	9
Shipbuilding	24,067	24,865	22,435	26,681	26,113	24,893	23,605	23,440	23,262	22,946	22,241	22,347	21,603
Offshore & engineering	4,901	6,779	6,536	9,714	9,675	12,164	12,239	12,297	12,314	12,249	12,313	12,264	12,207
Industrial plant	4,626	4,498	4,386	7,191	7,330	7,346	7,360	7,390	7,396	8,951	8,962	8,946	8,913
Engine & machinery	4,786	4,608	4,422	5,722	5,498	5,835	5,702	5,435	5,416	5,360	5,670	5,794	6,083
Electro-electric systems	1,828	1,805	1,809	1,839	1,890	2,037	2,171	2,153	2,190	2,320	2,458	2,541	2,634
Total	40,208	42,555	39,588	51,147	50,506	52,275	51,077	50,715	50,578	51,826	51,644	51,892	51,440
				(37,923)	(36,925)	(38,369)	(36,832)	(36,200)	(35,800)	(36,600)	(36,400)	(36,500)	(35,900)

Note: Figures in parenthesis = delivery basis; changed from sales to delivery basis starting Dec 2009

Source: HHI, Woori I&S Research Center

Monthly sales, by division

(Units: Wbn)

	'09.9	10	11	12	'10.1	2	3	4	5	6	7	8	9
Shipbuilding	781	740	742	708	685	571	682	560	640	682	581	632	604
Offshore & engineering	276	220	271	235	210	201	243	255	268	293	289	308	320
Industrial plant	148	166	205	246	325	223	231	114	154	239	173	273	265
Engine & machinery	226	287	195	218	179	152	266	184	261	211	176	184	216
Electro-electric systems	252	218	225	296	252	242	279	266	242	294	213	217	286
Construction equipment	139	137	115	73	157	154	222	220	211	206	210	183	167
Others	11	12	11	13	11	9	12	10	11	15	11	12	13
Total	1,833	1,779	1,764	1,788	1,819	1,552	1,935	1,609	1,787	1,940	1,653	1,809	1,871

Source: HHI, Woori I&S Research Center

Global peer analysis I — earnings

(Units: US\$m)

Company		HHI	DSME	SHI	HMD	IHI Corp	Mitsubishi Heavy Ind	Guangzhou Shipyard Int'l	China State Shipbuilding
Share price (Oct 29, \$)		327.0	26.7	28.2	167.8	1.9	3.6	3.9	9.8
Market cap		24,854.1	5,114.8	6,499.6	3,355.0	2,792.3	12,296.8	1,632.5	6,515.4
		Korea	Korea	Korea	Korea	Japan	Japan	China	China
Sales	2009	18,140	10,676	11,235	3,184	13,401	31,714	959	3,685
	2010E	19,384	10,700	11,912	3,210	14,702	35,268	1,149	4,008
	2011F	21,140	11,310	12,427	3,135	15,474	37,019	1,138	4,127
Operating profit	2009	1,907	587	681	332	508	708	69	300
	2010E	2,847	854	938	483	489	1,014	104	392
	2011F	3,030	843	946	436	583	1,208	103	365
EBITDA	2009	2,289	724	922	368	954	2,197	84	413
	2010E	3,319	1,012	1,197	524	958	2,806	159	780
	2011F	3,544	992	1,185	477	1,066	3,078	115	468
Net profit	2009	1,842	495	575	325	187	153	75	366
	2010E	3,016	613	671	427	215	307	106	404
	2011F	3,188	612	877	397	271	444	114	376
EPS (\$)	2009	24.2	2.6	2.5	16.2	0.1	0.0	0.2	0.6
	2010E	39.7	3.2	2.9	21.3	0.1	0.1	0.2	0.6
	2011F	41.9	3.2	3.8	19.8	0.2	0.1	0.2	0.6
BPS (\$)	2009	107.5	14.6	10.2	112.2	1.6	4.1	0.9	3.1
	2010E	140.7	17.6	12.8	135.6	1.9	4.8	1.2	3.7
	2011F	178.8	20.4	16.3	152.8	2.1	4.8	1.4	4.2
Net debt (-net cash)	2009	127	1,091	1,452	-835	3,325	13,070	-463	-1,302
	2010E	101	1,250	1,150	-967	3,045	14,147	N/A	N/A
	2011F	502	1,559	1,138	-1,107	2,961	14,166	N/A	N/A

Source: Bloomberg, Woori I&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)	2009	6.1	5.8	8.3	5.4	14.4	91.7	11.2	20.6
	2010E	8.2	8.3	9.7	7.9	12.9	39.1	19.5	16.6
	2011F	7.8	8.4	7.4	8.5	10.3	27.6	19.1	17.5
P/B (x)	2009	1.4	1.0	2.0	0.8	1.2	1.0	1.8	3.7
	2010E	2.3	1.5	2.2	1.2	1.0	0.8	3.2	2.6
	2011F	1.8	1.3	1.7	1.1	0.9	0.8	2.8	2.3
EV/EBITDA (x)	2009	5.0	5.5	6.8	2.5	6.5	12.6	13.4	15.6
	2010E	7.5	6.3	6.4	4.6	6.3	9.6	N/A	N/A
	2011F	7.2	6.7	6.4	4.7	5.5	8.8	N/A	N/A
ROE (%)	2009	27.9	21.7	25.9	15.5	8.6	1.1	17.4	19.3
	2010E	30.7	19.5	24.1	16.9	7.3	2.1	19.0	16.4
	2011F	25.8	16.8	25.6	13.8	7.6	2.6	16.1	13.5
ROA (%)	2009	8.6	3.7	2.9	5.7	1.2	0.3	5.1	5.7
	2010E	13.0	4.5	3.2	7.8	3.1	1.3	5.7	4.0
	2011F	12.4	4.5	3.3	7.0	3.4	1.5	5.9	4.0
Div yield (%)	2009	2.0	2.9	2.1	2.9	1.2	1.0	2.4	1.0
	2010E	1.6	1.7	1.6	1.6	1.7	1.4	1.3	1.5
	2011F	1.6	1.7	1.6	1.6	2.5	1.5	1.1	1.3

Source: Bloomberg, Woori I&S Research Center estimates

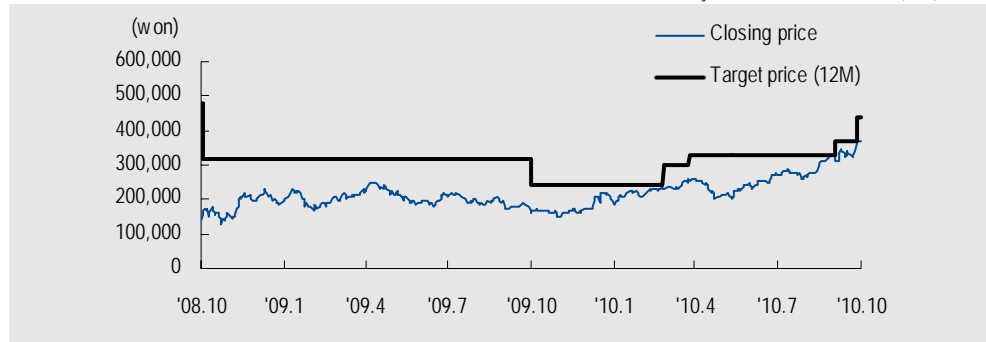
INCOME STATEMENT					VALUATION INDEX				
(Wbn)	2009/12A	2010/12E	2011/12F	2012/12F		2009/12A	2010/12E	2011/12F	2012/12F
Sales	21,142.2	21,723.2	23,691.2	25,689.5	EV/ EBITDA (X)	5.0	7.5	7.2	6.8
Growth (%)	5.9	2.7	9.1	8.4	EV/ EBIT (X)	6.0	8.8	8.4	8.0
Cost of sales	17,997.4	17,592.9	19,280.5	21,018.4	Price/ earnings (FD) (X)	6.1	8.2	7.8	7.1
Gross profit	3,144.8	4,130.3	4,410.7	4,671.1	Adjusted P/E (X)	7.0	8.7	8.2	7.6
Gross margin (%)	14.9	19.0	18.6	18.2	Price/ gross cash flow (X)	2.8	10.5	9.2	7.6
SG&A	922.2	939.6	1,014.7	1,093.0	Price/ book value (X)	1.4	2.3	1.8	1.5
EBITDA	2,668.2	3,719.4	3,972.0	4,195.3	Price/ sales (X)	0.6	1.3	1.2	1.1
EBITDA margin (%)	12.6	17.1	16.8	16.3	P/E/ EPS growth (X)	0.3	0.8	0.6	0.4
Depr & amort	445.7	528.7	576.1	617.2	P/E/ EBITPS growth (X)	0.4	0.8	0.5	0.3
Operating profit	2,222.6	3,190.7	3,395.9	3,578.1	P/E/ EBITDAPS growth (X)	0.4	0.8	0.6	0.4
OP margin (%)	10.5	14.7	14.3	13.9	Enterprise value (Wbn)	13,333.9	27,967.1	28,417.1	28,464.4
Non-operating income	3,309.6	2,237.9	2,132.1	2,110.2	EPS CAGR (3-Yr, FD) (%)	22.6	10.6	13.5	16.3
Non-operating expenses	2,884.1	969.6	815.3	623.1	EBITPS CAGR (3-Yr, FD) (%)	17.2	10.3	14.2	20.6
Net interest inc/ (exp)	133.1	14.5	0.1	-20.0	EBITDAPS CAGR (3-Yr, FD) (%)	16.3	9.9	13.2	18.7
Pre-tax profit from continuing operations	2,648.1	4,459.1	4,712.7	5,065.2	EBITPS (FD) (W)	29,244	41,982	44,683	47,080
Pretax margin (%)	12.5	20.5	19.9	19.7	EBITDAPS (FD) (W)	35,108	48,939	52,263	55,202
Tax	501.6	1,079.1	1,140.5	1,114.3	Fully diluted EPS (W)	28,243	44,473	47,003	51,985
Profit from continuing operations	2,146.5	3,380.0	3,572.2	3,950.9	Adjusted EPS (FD) (W)	24,935	42,297	44,607	48,150
Net profit	2,146.5	3,380.0	3,572.2	3,950.9	CFPS (W)	61,180	34,746	39,736	48,146
Net margin (%)	10.2	15.6	15.1	15.4	BVPS (W)	125,262	157,648	200,360	247,978
Adjusted net profit	1,895.0	3,214.5	3,390.2	3,659.4	Sales PS (W)	278,187	285,831	311,726	338,020

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	1,908.2	2,510.7	3,049.2	RIM				
Net profit	2,146.5	3,380.0	3,572.2	3,950.9	Spread (FROE-COE) (%)	16.0	19.5	14.6	11.7
+ Depr & amort	445.7	528.7	576.1	617.2	Residual income	1,234.6	2,146.1	2,023.3	2,021.4
+ Associates' loss (-profit)	-285.0	-359.1	-366.3	-373.6	12M RIM-based target price (W)	439,796			
+ FC translation loss (-profit)	32.4	140.9	126.1	0.0	Economic value added				
+ Loss (-gain) on tangible asset disp	-58.4	0.0	0.0	0.0	Invested capital	6,539.9	7,920.0	9,783.1	11,653.6
Gross cash flow	4,649.7	2,640.7	3,019.9	3,659.1	NOPAT	1,801.6	2,418.5	2,574.1	2,790.9
- Incr (+dec) in working capital	-5,607.7	-732.5	-509.3	-609.9	ROIC (%)	40.9	33.5	29.1	26.0
Investing cash flow	-1,230.6	-1,661.1	-2,596.9	-2,732.8	ROIC - WACC (%)	31.9	25.0	20.3	17.2
Decr in tangible assets	128.2	0.0	0.0	0.0	EVA	2,086.9	1,976.4	1,990.2	2,005.2
Incr. in tangible assets (capex)	-1,178.9	-1,172.1	-2,492.6	-2,432.6	Discounted cash flow				
+ Disp (-acq) of inv assets	-259.3	0.0	0.0	0.0	EBIT	2,222.6	3,190.7	3,395.9	3,578.1
Free cash flow	-2,136.8	736.1	18.1	616.7	+ depreciation	445.7	528.7	576.1	617.2
Net cash flow	-2,188.6	247.0	-86.3	316.4	- capex	1,178.9	1,172.1	2,492.6	2,432.6
Financing cash flow	586.3	-134.6	66.3	-371.9	Free cash flow for DCF valuation	-2,676.3	403.8	-605.1	-360.4
Equity financing	0.0	0.0	0.0	0.0	Weighted average cost of capital (%)				
Debt financing	586.3	-134.6	66.3	-371.9	Cost of debt (tax adjusted)	6.2	5.8	5.8	6.0
+ Inc (-dec) in cash & ST financial goods	-1,602.3	112.5	-20.0	-55.5	Cost of equity (COE)	11.8	11.2	11.7	11.7
Net debt/(cash) end	147.9	113.1	563.1	610.4	WACC	9.0	8.5	8.7	8.8

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	854.1	834.1	778.6	ROE (%)	27.9	30.7	25.8	22.9
Accounts receivable	4,973.5	5,520.2	6,020.3	6,528.2	ROA (%)	8.6	13.0	12.4	12.4
Total current assets	10,609.9	11,970.2	12,651.6	13,592.9	ROIC (%)	40.9	33.5	29.1	26.0
Tangible assets	8,145.5	8,833.3	10,787.5	12,634.6	EBITDA/ equity (%)	27.2	30.4	25.7	22.1
Investment assets	4,866.4	5,225.6	5,592.2	5,966.1	EBITDA/ asset (%)	10.7	13.6	13.1	12.5
Non-current assets	14,262.7	15,291.7	17,664.4	19,944.6	Dividend yield (%)	2.0	1.6	1.6	2.0
Total asset	24,872.6	27,261.8	30,316.0	33,537.5	Cash dividends (Wbn)	212.2	363.7	363.7	454.7
Short-term debt	585.3	665.7	625.5	590.4	Cash DPS (W)	3,500	6,000	6,000	7,500
Accounts payable	1,427.6	1,453.7	1,541.5	1,628.2	Net debt (cash)/ equity (%)	1.5	0.9	3.6	3.2
Total current liabilities	12,909.1	12,866.0	12,264.5	11,890.2	Debt/ equity (%)	153.6	123.0	96.4	76.3
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	243.7	262.8	282.2	Interest coverage (X)	-16.7	-219.4	-35,458.5	178.7
Non-current liabilities	2,155.1	2,170.6	2,617.7	2,626.4	Current ratio (%)	82.2	93.0	103.2	114.3
Total liabilities	15,064.2	15,036.6	14,882.2	14,516.6	Quick ratio (%)	67.2	76.4	84.9	93.9
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	9,671.7	12,880.3	16,467.4	Share price (W)	173,500	366,500	366,500	366,500
Total shareholder's equity	9,808.4	12,225.3	15,433.8	19,020.9	Market cap (Wbn)	13,186	27,854	27,854	27,854

<Rating and target price update >

Company	Code	Date	Rating	Target price
HHI	009540.KS	2010.11.01	Buy	440,000(12M)
		2010.10.01	Buy	370,000(12M)
		2010.04.23	Buy	330,000(12M)
		2010.03.25	Buy	300,000(12M)
		2009.10.30	Buy	240,000(12M)
		2008.10.31	Buy	320,000(12M)
		2008.07.30	Buy	480,000(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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