

Hyundai Heavy (009540)

Rating: BUY

➤ Closing price: W198,000 (Sep 28)

➤ Price target: W260,000

Myanmar Gas field development project

- **USD2bn gas field production facility order**

According to media reports, Hyundai Heavy Industries (HHI) received an order to build gas field production facilities worth up to USD2bn. The company is in the last leg of negotiations with Daewoo International for the final price. If won, the order would prove once again, HHI's competitiveness in gas production facilities. Last July and earlier this month, HHI received orders from Abu Dhabi Gas Liquefaction (ADGAS) and Thailand's PTT Exploration and Production Public (PTTEP) to build gas production facilities for USD900mn and USD1bn, respectively.

- **Share price strong on back of Gorgon project rumor**

HHI's share price was relatively strong on back of the rumor that the company would receive an order from Australia's Gorgon LNG plant project (USD3bn). Although not verified, if true, the order should be a positive surprise. This is because the market consensus is that DSME, which has the best relationship with Chevron (US), the major company awarding the orders, will win the order. Accordingly, we believe that if HHI wins the order, DSME's share price will react negatively.

- **Maintain BUY and price target of W260,000**

We maintain BUY and price target despite the shipbuilding order drought due to positive order momentum in non-shipbuilding divisions. Orders YTD to August were USD5.5bn, which is dismal when considering the annual target of USD21bn. However, potential orders from Korea Southern Power for wind turbines (USD2.2bn), gas production facilities (USD2bn), and Gorgon (USD3bn), if realized, would push total orders to USD12.7bn. We believe, the current valuation of 5x PER (2010) and 1.4x PBR is attractive.

Yr to	Sales	OP	EBT	NP	EPS	% chg	EBITDA	P/E	EV/EBITDA	PBR	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(won)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2007A	15,533	1,751	2,394	1,736	27,778	151.3	2,143	11.2	9.1	4.0	35.4
2008A	19,957	2,206	2,950	2,257	37,340	34.4	2,597	7.9	7.1	3.3	40.7
2009F	22,422	2,221	2,771	2,120	35,369	-5.3	2,681	5.6	4.5	1.8	32.8
2010F	23,388	2,527	3,074	2,352	39,239	10.9	3,057	5.0	3.6	1.4	28.3
2011F	24,472	2,980	3,581	2,740	45,710	16.5	3,586	4.3	2.7	1.2	26.1

Source: Company data, Korea Investment & Securities estimates

Shipbulding
JD Yang
822-3276-6175
jdyang@truefriend.com

Jungju Jin
822-3276-6192
jungju.jin@truefriend.com

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Hyundai Heavy (009540)	08-07-30	BUY	W440,000
	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



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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.

* As of June 2, 2008, Korea Investment & Securities Co., Ltd. has adopted a new stock rating system comprised of BUY, Hold and Underweight.

Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months

- 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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Prepared by: JD Yang, Jungju Jin

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