

HHI
 (009540.KS)

Offshore and plants to be new growth drivers

Buy (Maintain)

TP W240,000 (Maintain)
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Sector Heavy Industry

Current price (11/30/09) W150,500

KOSPI 1,555.60

KOSDAQ 464.32

Market cap (common) \$9,839.14mn

Outstanding shares (common) 76.0mn shrs

Par value W5,000

120DA trading vol 410,386shrs

120DA share price W188,421

52W High (05/06/09) W250,000

Low (11/24/08) W147,000

Dividend yield (2008) 3.32%

Foreign ownership 17.6%

Major shareholders

Mong-jun Chung 10.8%

KECC 8.1%

Share performance (%)

	3M	6M	12M
Absolute	-25.5	-30.0	-2.3
Relative	-22.2	-41.4	-46.8

Maintain Buy and target price of W240,000

- We maintain Buy with a target price of W240,000
- Despite ongoing sluggishness in shipbuilding, we expect solid margins thanks to improvements in the non-shipbuilding divisions, such as offshore and plant.
- We expect strong 2010 and 2011 operating margins of 11.2% and 10.7%, respectively, with EPS of W37,165 and W40,394, ROE of 32.5% and 27.1%
- HHI is highly undervalued, trading at 2010 and 2011 P/Es of 4.0x and 3.7x, respectively, EV/EBITDAs of 3.6x each, and P/Bs of 1.2x and 0.9x.

Strong growth expected in offshore and plant

- Given deteriorated new orders and newbuilding prices, the global shipbuilding industry is passing through its worst times ever. In particular, HHI's backlog in shipbuilding has been dropping steadily on sluggish new orders in 2009; it has only won US\$444mn (down 96.8% y-y) in new orders this year.
- However, the offshore and plant divisions should continue to improve, generating solid earnings. At end-Oct 2009, new offshore orders stood at US\$2.3bn and plant at US\$2.7bn, emerging as new growth drivers to replace shipbuilding, and large-scale offshore/plant projects should follow in 2010.

Solid earnings expected on high asset value

- We expect HHI to post solid earnings thanks to growth in the non-shipbuilding sectors, with 3Q operating margins of: offshore 20.5%, plant 14.4%, and electro-electric 12.4%.
- Moreover, cash flow remains solid and investment securities healthy. We expect 2010 BPS of W128,560.

To become number-one heavy industry play worldwide

- Given its world-class technology and production efficiency in both shipbuilding and non-shipbuilding sectors, we expect HHI to remain an industry leader.
- In addition, its increasing investment in the electro-electric division, solar cells, wind power, and robotics should provide further growth drivers. We expect HHI to become not only the number-one shipyard, but to transform into the number-one heavy industry play in the world.

YE-Dec	Sales (Wbn)	Chg (%)	OP (Wbn)	Pre-tax (Wbn)	NP (Wbn)	EPS (won)	Chg (%)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Debt/equity (%)	Net debt (Wbn)
2007	15,533	23.7	1,751	2,394	1,736	22,843	143.5	19.4	6.4	14.1	35.4	206.4	-3,422
2008	19,957	28.5	2,206	2,950	2,257	29,693	30.0	6.7	2.8	4.9	40.7	351.8	-2,443
2009E	21,692	8.7	2,172	2,578	1,954	25,712	-13.4	5.9	1.6	4.2	30.0	216.7	-486
2010F	23,499	8.3	2,630	3,621	2,825	37,165	44.5	4.0	1.2	3.6	32.5	159.5	-230
2011F	24,258	3.2	2,586	3,936	3,070	40,394	8.7	3.7	0.9	3.6	27.1	119.0	-567

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 any institutional investors or other third party in advance. The Korean version of this material was distributed on December 1, 2009.
- The analyst and his/her spouse do not own any securities of companies mentioned in this material 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.

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I. Investment points

Maintain Buy and target price of W240,000

We maintain Buy with a target price of W240,000 on Hyundai Heavy Industries (HHI). Despite ongoing sluggishness at the shipbuilding division, we expect the company to post solid margins thanks to improvements at the non-shipbuilding divisions, such as offshore and plant. We expect HHI to become a true global player in heavy industry, overcoming its strong dependence on shipbuilding business, and post strong growth.

We expect strong operating margins of 11.2% in 2010 and 10.7% in 2011, with EPS of W37,165 and W40,394, respectively. We also expect 2010 ROE of 32.5% and 2011 ROE of 27.1%. HHI is highly undervalued, currently trading at a 2010 P/E of 4.0x and 2011 P/E of 3.7x. Moreover, 2010~2011 EV/EBITDAs stand at 3.6x each, and P/Bs at 1.2x and 0.9x, respectively. Following the recent share price correction, HHI looks even more attractive, and we believe now is a good time to accumulate on dips. Our target price is based on a RIM valuation, with key assumptions of: market risk premium of 6.0%, risk-free rate 4.0%, and beta of 1.2, with CoE of 11.2%.

Strong growth expected in offshore and plant

Given deteriorated new orders and newbuilding prices, the global shipbuilding industry is passing through its worst times ever. For example, with the maritime transportation industry in a deep depression and vessel financing drying up, shipbuilding orders are unlikely to recover easily. In addition, HHI's new orders over January~October stood at US\$444mn (down 96.8% y-y). On the upside, the company still has US\$24.9bn worth of order backlog, which should be enough to sustain stable construction volume in the future.

Moreover, we expect the offshore and plant divisions to continue to improve, generating solid earnings. For example, HHI won orders for the Gorgon gas project in October, a Myanmar project in November, and should win more large-scale offshore/plant projects in 2010. As of end-Oct 2009, its new offshore orders stood at US\$2.3bn and plant orders at US\$2.7bn, emerging as new growth drivers to replace shipbuilding.

Offshore and plant orders to reduce earnings volatility

Although the shipbuilding division's earning could weaken, we expect the non-shipbuilding divisions to more than pick up the slack by continuing to post strong, stable margins. In particular, given the drastic drop in new shipbuilding orders, vessel construction volume is likely to gradually dry from 2011. However, the non-shipbuilding divisions' outstanding growth should be sufficient to offset the weakness in shipbuilding. In 3Q09, HHI posted operating margins of 20.5% in offshore, plant 14.4%, engine/machinery 28.3%, and electro-electric 12.4%. Moreover, its earnings dependence on shipbuilding declined to 42.6% in 3Q09, and we expect its earnings sensitivity to global shipbuilding industry conditions to fall further going forward.

Cash flow stable, asset value high

HHI has maintained stable cash flow and has a large amount of sound investment securities. The book value of its investment securities stands at W3,826.4bn, vs market value of W4,183.6bn. We estimate 2010 BPS at W128,560.

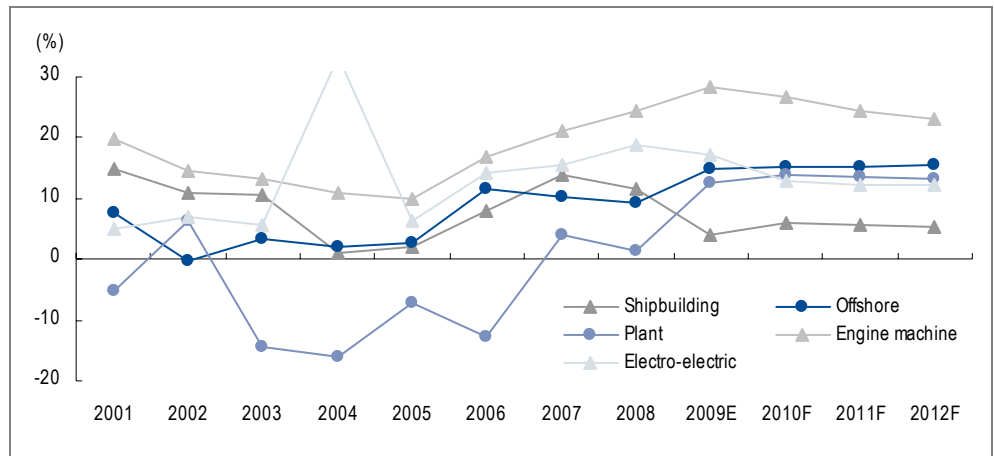
In addition, the company pays high dividends: W7,500 (dividend payout ratio of 27%) in 2007 and W5,000 (13%) in 2008. We expect earnings to stay solid in 2009, and high DPS and payout ratio to be maintained, accordingly. Meanwhile, shares recently pulled back sharply, and thus, dividend yield should rise to 3.3% for 2009. As such, HHI should emerge as a dividend play around the year-end.

World's number-one heavy industry player

We expect HHI to remain the world's largest shipbuilder thanks to competitive technology and productivity, despite the weak shipbuilding industry. In addition, the offshore and plant divisions should continue to grow sharply longer term on solid order flow.

Finally, the company has been investing aggressively in new growth drivers, such as solar cells, wind power, and robotics. Going forward, we believe HHI will transform itself from a shipbuilder into the world's largest heavy industry player.

Operating margin by business: high margins enjoyed at offshore/plant units



Source: HHI, Woori I&S Research Center estimates

II. Valuation: maintain Buy and TP of W240,000

Shares to rebound on solid non-ship units

HHI is the world's number-one player in shipbuilding and vessel engines, and emerging as a prominent player in offshore/plant. Over the longer term, we believe it will grow into the world's largest heavy industry player, catalyzing shares. Despite the slumping shipbuilding industry, the company should be able to sustain strong enterprise value, backed by robust earnings at the non-shipbuilding units. In terms of share price drivers, we believe the positive news flows from the offshore and plant divisions to offset lackluster news in shipbuilding.

2010 op margin of 11.2% and EPS of W37,165

We now expect 2010 and 2011 sales to grow 8.3% and 3.2% y-y, respectively, with operating margins of 11.2% and 10.7% and EPS of W37,165 and W40,394. Granted, the recent plunge in shipbuilding orders may slow 2011 sales growth, but we believe overall growth momentum will remain intact. Meanwhile, margins should stay strong thanks to solid results in the non-shipbuilding divisions.

Shares trading at 2010 P/E of 4.0x and EV/EBITDA of 3.6x

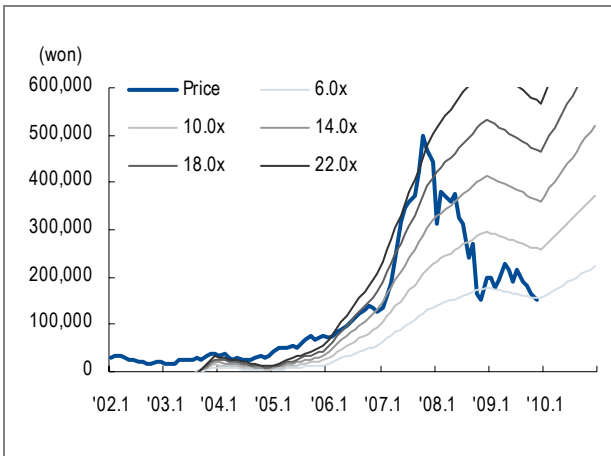
Shares have recently pulled back sharply, currently trading at 2010 and 2011 P/Es of 4.0x and 3.7x, respectively, EV/EBITDAs of 3.6x and 3.6x, and P/Bs of 1.2x and 0.9x. These multiples are much lower than their five-year averages—P/E 15.4x, EV/EBITDA 8.3x, and P/B 3.0x—putting HHI in the lower ends of its valuation bands (see page 7). Meanwhile, our target price of W240,000 is based on a RIM valuation, assuming a market risk premium 6.0%, risk-free rate 4.0%, and beta 1.2, with a calculated COE of 11.2%. Our target is equivalent to a 2010 P/E of 6.5x, EV/EBITDA of 5.9x, and P/B of 1.9x.

Valuations and key financial data							(Units: won, x, %)
	2006	2007	2008	2009E	2010F	2011F	2012F
EPS	9,380	22,843	29,693	25,712	37,165	40,394	41,344
BPS	53,938	69,151	70,170	94,874	128,560	165,402	203,130
CPS	12,401	21,772	47,602	18,443	29,097	32,507	31,510
Sales per share	165,194	204,382	262,593	285,423	309,192	319,182	337,133
EBITDA/share	16,548	28,193	34,171	34,457	40,497	39,946	39,141
P/E	13.4	19.4	6.7	5.9	4.0	3.7	3.6
P/B	2.3	6.4	2.8	1.6	1.2	0.9	0.7
P/cash	10.2	20.3	4.2	8.2	5.2	4.6	4.8
P/sales	0.8	2.2	0.8	0.5	0.5	0.5	0.4
P/EBITDAPS	9.1	5.3	4.4	4.4	3.7	3.8	3.8
EV/EBITDA	6.7	14.1	4.9	4.2	3.6	3.6	3.5
Debt dependence	1.4	1.1	0.0	1.3	3.0	2.9	2.7
Debt/equity	200.8	206.4	351.8	216.7	159.5	119.0	94.9
Net debt ratio	-25.2	-62.3	-43.7	-6.5	-2.3	-4.5	-6.4
EBIT/net interest cost	-11.1	-9.3	-8.1	-16.3	-43.8	-35.4	-22.3
Financial cost burden	0.1	0.1	0.0	0.1	0.2	0.2	0.2
ROE	17.9	35.4	40.7	30.0	32.5	27.1	22.2
ROA	5.8	11.6	10.7	8.0	11.4	11.4	10.8
ROIC	34.7	187.5	178.7	61.4	52.7	38.2	30.4
Gross margin	12.6	16.5	15.8	14.7	15.9	15.4	14.6
EBITDA margin	10.0	13.8	13.0	12.1	13.1	12.5	11.6
Operating margin	7.0	11.3	11.1	10.0	11.2	10.7	9.8
Pre-tax margin	8.2	15.4	14.8	11.9	15.4	16.2	15.7
Net margin	5.7	11.2	11.3	9.0	12.0	12.7	12.3

Note: Based on Nov 30 closing price (W150,500)

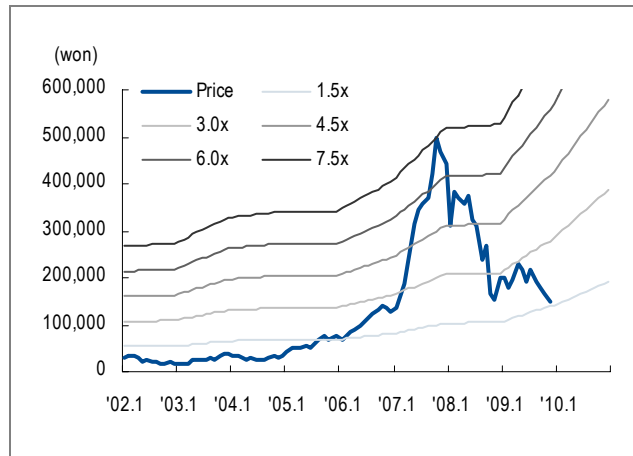
Source: Woori I&S Research Center estimates

P/E band



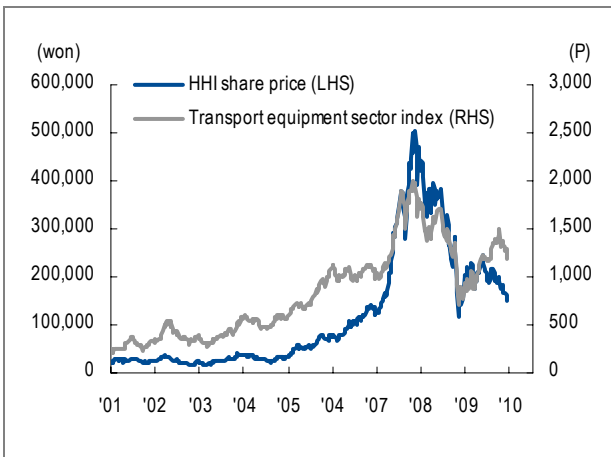
Source: Woori I&S Research Center

P/B band



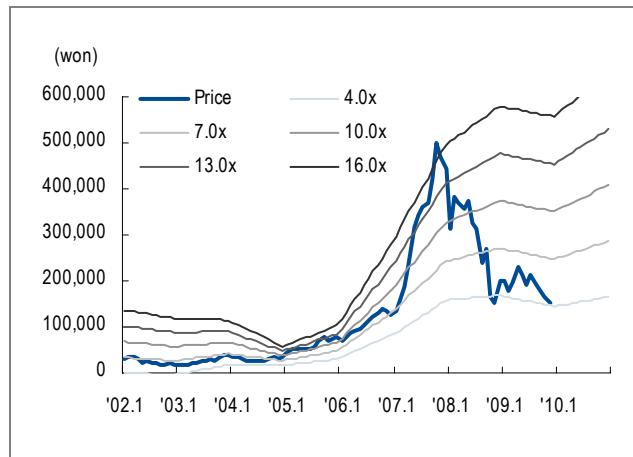
Source: Woori I&S Research Center

Relative share performance (vs transport equipment)



Source: Woori I&S Research Center

EV/EBITDA band



Source: Woori I&S Research Center

Global offshore/plant company overview

(Units: Wbn, %, won)

	Company	Sales	Growth	OP	NP	EPS	BPS	Total asset	Total liability	Capital	Debt/equity
Offshore	Technip SA	12,009	-5.1	1,054	719	6,854	40,910	14,291	9,905	147	225.8
	Saipem	16,203	5.9	1,740	1,467	3,371	11,137	24,591	19,709	775	403.7
	McDermott Int'l	7,237	16.7	561	473	2,081	7,260	5,796	4,138	295	249.6
Plant	Doosan Heavy	5,710	39.6	474	-66	-628	30,197	9,919	6,538	525	193.3
	Alstom	31,982	10.8	2,622	1,893	6,605	17,937	43,850	38,634	3,641	740.7
	Siemens AG-REG	115,139	6.7	2,817	8,524	9,544	52,162	158,557	112,599	4,604	245.0

Note: As of 2008; Alstom figures as of Mar 2009; Siemens AG-REG as of Sep 2008; won/dollar rate based on Nov 27
Source: Business reports

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 (Nov 27, \$)		126.4	12.0	19.0	66.8	1.5	3.2	3.9	11.2
Market cap		9,602.7	2,296.1	4,390.4	1,335.8	2,220.8	10,681.5	1,565.3	7,451.9
		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	18,533	10,673	10,870	3,447	14,294	34,614	1,022	4,207
	2010F	20,077	11,693	12,267	3,656	14,058	35,290	1,119	4,508
OP	2008	1,716	802	587	417	257	1,058	50	553
	2009E	1,855	619	831	320	329	698	93	540
	2010F	2,247	712	1,074	430	413	961	116	631
EBITDA	2008	2,020	915	774	451	715	2,586	64	632
	2009E	2,237	744	1,052	367	798	2,346	97	571
	2010F	2,630	835	1,288	484	873	2,676	131	684
NP	2008	1,755	312	488	404	-74	242	118	599
	2009E	1,670	556	716	299	78	117	88	469
	2010F	2,413	592	1,045	420	141	317	103	546
EPS (\$)	2008	23.1	1.6	2.1	20.2	-0.1	0.1	0.2	0.9
	2009E	22.0	2.9	3.1	15.0	0.1	0.0	0.2	0.8
	2010F	31.8	3.1	4.5	21.0	0.1	0.1	0.2	0.9
BPS (\$)	2008	54.6	8.4	7.5	87.9	1.3	3.7	0.8	2.7
	2009E	81.1	11.6	10.5	107.4	1.4	4.2	0.9	3.2
	2010F	109.8	14.3	14.4	126.4	1.4	4.2	1.1	3.9
Net debt	2008	-1,900	-622	-1,814	-1,102	3,281	11,825	-578	-1,310
(-net cash)	2009E	-416	772	-2,127	-1,121	3,490	12,821	N/A	N/A
	2010F	-196	730	-2,172	-1,144	3,181	12,910	N/A	N/A

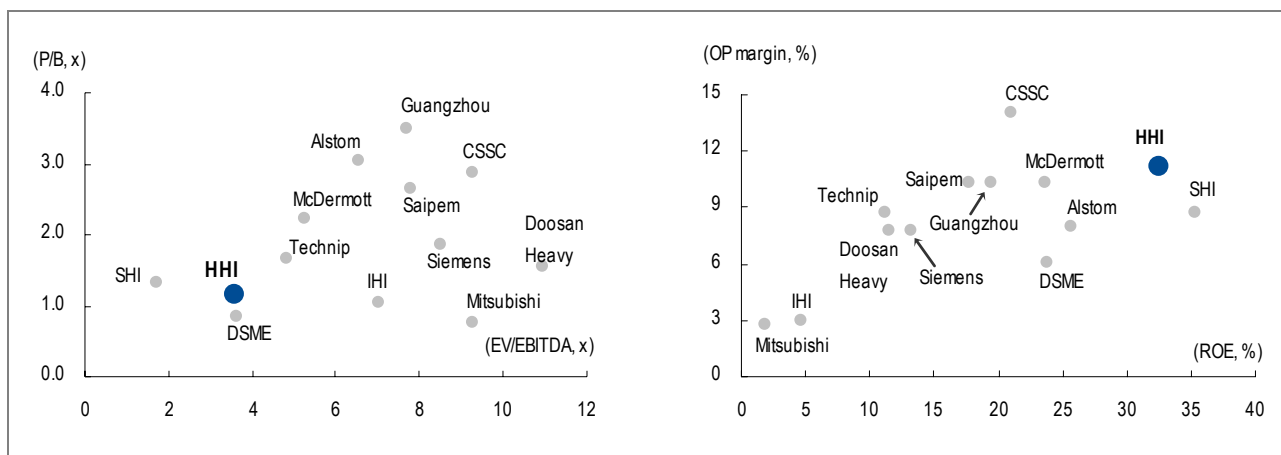
Source: Bloomberg estimates, Woori I&S Research Center

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	5.8	4.1	6.2	4.5	27.4	85.3	19.6	14.7
	2010F	4.0	3.9	4.2	3.2	15.4	33.2	17.4	12.3
P/B (x)	2008	2.8	1.4	2.3	1.2	0.9	0.8	1.1	2.1
	2009E	1.6	1.0	1.8	0.6	1.1	0.8	4.2	3.5
	2010F	1.2	0.8	1.3	0.5	1.0	0.8	3.5	2.9
EV/EBITDA (x)	2008	4.9	1.8	2.9	2.2	7.0	8.6	2.9	4.0
	2009E	4.1	4.1	2.2	0.6	7.7	10.6	10.4	11.1
	2010F	3.6	3.6	1.7	0.4	7.0	9.3	7.7	9.3
Op margin (%)	2008	11.1	9.3	7.1	14.1	1.9	3.1	4.9	13.9
	2009E	10.0	5.8	7.6	9.3	2.3	2.0	9.1	12.8
	2010F	11.2	6.1	8.8	11.8	2.9	2.7	10.3	14.0
ROE (%)	2008	40.7	21.0	30.4	19.4	-3.6	1.8	31.6	36.5
	2009E	30.0	27.9	31.9	14.7	3.9	0.9	19.8	22.0
	2010F	32.5	23.8	35.4	18.0	4.7	1.8	19.5	21.0
ROA (%)	2008	10.7	3.3	3.4	7.3	-0.5	0.5	7.7	10.0
	2009E	8.0	4.2	3.1	4.7	2.3	0.7	5.1	6.2
	2010F	11.4	4.4	4.2	6.4	2.6	1.2	5.3	7.1
Div yield (%)	2008	2.5	3.3	2.2	3.7	0.0	2.0	7.2	2.6
	2009E	3.4	3.5	3.4	3.2	1.1	1.5	1.3	1.1
	2010F	3.4	3.5	4.5	4.5	1.6	1.6	1.1	1.2

Source: Bloomberg estimates, Woori I&S Research Center

Global peer analysis III — valuation comparison with peers



Note: Valuation indicators based on 2010 forecasts
 Source: Factset, Reuters, I/B/E/S estimates, Woori I&S Research Center estimates

Global peer analysis IV — market valuation

(Units: x, %)

		Kospi	Dow Jones	S&P 500	Nasdaq	Nikkei	Hang Seng	Shanghai	Taiwan	FTSE
P/E	2007	15.3	16.4	17.2	32.8	18.0	16.2	45.6	14.4	13.1
	2008	10.0	13.9	14.8	21.7	12.5	12.9	17.6	22.5	24.7
	2009	20.7	16.1	21.9	37.8	N/A	22.1	32.8	177.1	61.0
	12m-fwd	12.7	16.0	17.3	24.9	36.5	16.7	22.8	23.7	14.8
P/S	2009	0.8	1.3	1.2	1.8	0.6	2.9	2.2	1.3	1.2
P/B	2009	1.1	2.7	2.2	2.4	1.2	2.0	3.3	1.8	2.0
P/cash	2009	13.1	7.7	7.7	3.3	8.3	11.8	N/A	10.7	5.5
EV/EBITDA	2009	7.1	7.9	6.7	1.4	7.5	9.1	14.5	18.8	6.8
Div yield	2009	1.5	2.7	2.1	0.8	1.8	3.0	1.5	2.7	3.6

Source: Bloomberg, Woori I&S Research Center

Global peer analysis V - performance

	Company Name	Country	Relative share performance (%)					Absolute share performance (%)				
			1w	1m	3m	6m	1y	1w	1m	3m	6m	1y
Shipbuilding	HHI	Korea	-3.7	-6.1	-23.2	-36.8	-31.9	-9.5	-16.6	-25.8	-31.9	-5.1
	DSME	Korea	-6.9	-6.3	-28.7	-37.0	-34.5	-12.4	-15.1	-32.4	-31.2	-5.8
	SHI	Korea	-4.6	5.3	-22.1	-32.0	-20.9	-10.2	-7.8	-24.4	-27.1	12.2
	HMD	Korea	-7.7	-17.5	-35.2	-47.9	-56.5	-13.2	-30.2	-38.7	-41.4	-39.5
	Hanjin	Korea	-1.3	5.7	-21.1	-44.0	-23.0	-7.1	-6.9	-25.7	-41.1	7.3
	STX Shipbuilding	Korea	-6.2	-8.5	-22.6	-40.9	-33.5	-11.7	-17.5	-27.1	-36.5	-5.1
	IHI Corp	Japan	-5.9	-17.9	-18.8	-15.2	20.4	-9.0	-27.6	-31.4	-22.5	17.0
	Mitsubishi Heavy Industries	Japan	-3.0	-7.6	-17.2	-11.0	-27.1	-6.2	-18.7	-29.7	-18.9	-24.2
	Guangzhou Shipyard International	China	-2.7	1.8	-16.0	5.9	42.2	-9.0	3.7	-6.9	27.0	129.8
China State Shipbuilding	China	-1.2	4.5	-11.6	6.2	25.1	-7.5	5.7	0.0	26.8	103.3	
Offshore	Technip SA	France	-2.7	0.4	2.4	17.6	70.8	-2.9	2.0	5.7	37.9	107.6
	Saipem	Italy	1.1	5.3	16.3	8.4	61.4	-0.3	1.4	16.3	22.7	86.4
	McDermott International	US	-4.5	-14.6	-18.3	-19.5	76.9	-4.5	-12.9	-12.6	0.9	117.3
Plant	Doosan Heavy	Korea	-5.2	-14.1	-14.6	-32.2	-27.3	-10.9	-20.5	-19.0	-23.9	2.5
	Alstom	France	0.0	-4.3	-5.5	-5.3	0.5	-0.2	-1.3	-1.4	7.5	10.6
	Siemens AG-REG	Germany	1.5	-3.7	3.4	10.0	14.1	1.9	0.6	8.0	22.5	37.6

Source: Bloomberg, Woori I&S Research Center

III. Global shipbuilding faced worst operating conditions in 2009

Global shipbuilding turned weak due to stagnant shipping market, shrinking vessel financing

The global shipbuilding industry turned strong from 2003 and enjoyed record-high order placements and soaring newbuilding prices in 2007. However, the industry was hit by the global economic downturn and vessel financing contraction from 4Q08. In particular, financial difficulties in the global shipping industry weighed heavily on the shipbuilding market. The shipbuilding industry experienced some of the worst operating conditions in 2009 due to a sharp decline in vessel order placement, plunge in newbuilding prices, cancellation of orders, and delays in delivery. Overall, we maintain our Neutral rating on the shipbuilding sector.

Global vessel orders down 87.0% y-y

According to Clarkson, January~October global new orders stood at 5.20mn CGT (down 87.0% y-y), with delivery of 34.6mn CGT (up 7.1% y-y) and backlog of 158.5mn CGT (down 19.1% y-y). Specifically, January~October new orders broke down as: bulk carrier 2.6mn CGT (-84.9% y-y), tanker 1.4mn CGT (down 86.0% y-y), and containership 200,000 CGT (-96.4% y-y). All vessel types saw steep declines in new orders, with gas carriers seeing zero orders placed.

Korea: Jan~Oct orders 1.6mn CGT (down 90.2%), delivery 12.8mn CGT (up 5.8%)

Korean shipbuilders' order receipts and backlogs slid sharply, losing their number-one position to Chinese shipbuilders in 2009. Korean shipbuilders' January~October order receipts stood at 1.60mn CGT (down 90.2% y-y), with delivery at 12.8mn CGT (up 5.8% y-y) and backlog at 53.6mn CGT (down 22.8% y-y). New orders broke down as: China 52.3%, Korea 31.8%, and Japan 2.3%. As of October, backlog broke down as: China 34.7%, Korea 33.8%, and Japan 15.9%. Market shares are likely to change when the market picks up, and we believe the growing presence of Chinese shipbuilders is a cause for concern.

January~October new orders, deliveries, and backlogs, by country

	New orders					Deliveries					Backlog				
	No of vessels	mn DWT	mn CGT	Share (%)	Growth (% y-y)	No of vessels	mn DWT	mn CGT	Share (%)	Growth (% y-y)	No of vessels	mn DWT	mn CGT	Share (%)	Growth (% y-y)
Korea	56	6.8	1.6	31.8	-90.2	426	37.2	12.8	37.0	5.8	1,885	171.0	53.6	33.8	-22.8
Japan	5	0.7	0.1	2.3	-98.0	358	23.9	7.4	21.4	-5.1	1,251	93.7	25.2	15.9	-19.7
China	142	12.7	2.7	52.3	-80.1	600	27.0	8.8	25.4	39.7	3,286	195.0	55.0	34.7	-11.7
Europe	29	0.2	0.2	4.0	-92.0	326	3.8	4.2	12.1	-12.5	927	12.2	12.0	7.6	-34.1
Other	32	1.5	0.5	9.6	-79.2	201	2.0	1.4	4.0	0.0	1,079	29.9	12.8	8.1	-11.7
Total	264	21.9	5.2	100.0	-87.0	1,911	94.0	34.6	100.0	7.1	8,428	501.8	158.5	100.0	-19.1

Note: Share and growth based on CGT

Source: Clarkson_World Shipyard Monitor (2009.11), Woori I&S Research Center

January~October new orders, deliveries, and backlogs, by vessel

	New orders					Deliveries					Backlog				
	No of vessels	mn DWT	mn CGT	Share (%)	Growth (% y-y)	No of vessels	mn DWT	mn CGT	Share (%)	Growth (% y-y)	No of vessels	mn DWT	mn CGT	Share (%)	Growth (% y-y)
Tanker	64	7.1	1.4	26.9	-86.0	602	43.1	12.1	35.0	28.7	1,783	137.3	36.4	23.0	-27.1
Bulk carrier	121	13.3	2.6	50.0	-84.9	385	32.1	7.4	21.4	60.9	3,192	276.4	62.4	39.4	-7.1
LNG	-	-	-	0.0	-100.0	33	3.2	2.9	8.4	-14.7	51	4.1	3.9	2.5	-51.3
LPG	1	0.0	0.0	0.0	-100.0	48	1.1	0.7	2.0	-30.0	134	2.0	1.6	1.0	-36.0
Containership	7	0.5	0.2	3.8	-96.4	223	11.4	5.8	16.8	-31.0	911	59.0	28.6	18.0	-21.9
Other	71	1.0	0.8	15.4	-87.3	620	3.1	5.6	16.2	0.0	2,357	23.1	25.8	16.3	18.4
Total	264	21.9	5.2	100.0	-87.0	1,911	94.0	34.6	100.0	7.1	8,428	501.8	158.5	100.0	-19.1

Note: Share and growth based on CGT

Source: Clarkson_World Shipyard Monitor (2009.11), Woori I&S Research Center

Weak global shipping industry weighs on Korean shipbuilders

The slumping global shipping industry should weigh on Korean shipyards. Major shipbuilding customers have posted massive operating losses and funding difficulties due to the plunge in freight rates since 2H08. According to Korea Development Bank, total orders from the top-25 shipping companies that had each placed more than 10 orders with Korean shipyards amounted to 570 vessels (69.72mn DWT). The biggest customer for the domestic shipbuilders is TMT (Taiwanese bulk shipping company; 31 vessels, 6.86mn DWT), followed by CMA-CGM (France; 31 vessels, 3.24mn DWT), Peter Offen (Germany; 36 vessels, 4.59mn DWT), Hapag-Lloyd (Germany; 14 vessels, 1.44mn DWT) and Zim Line (Israel; 18 vessels, 2.28mn DWT).

Korean shipyards likely to delay vessel deliveries

The problem is that most of these major customers for the Korean shipbuilders have asked for bailouts. In particular, of the total orders from the 25 companies, 57% are expected to be delivered by 2010 (85.1% of their total orders concentrated in Korea), and thus, financially-strapped shipping companies may not make interim payments, hurting Korean shipyards. Accordingly, we expect vessel deliveries to be delayed or terms of contract changed, and earnings forecasts for domestic shipbuilders to be lowered. However, order cancellations are unlikely, as the orders also involve financial institutions and global governments are working to provide aid.

Top 25 shipping companies placing orders to domestic shipyards

(Units: %)

Rank	Company	Nation	Orders to Korean shipyards		Order to fleet supply	% of orders to Korean shipyards	Delivery for 2009~2010
			'000 DWT	No of vessel			
1	TMT	Taiwan	6,865	31	230	99.3	58.4
2	AP Moller Maersk	Denmark	4,640	55	21	89.9	22.5
3	Reederei CP Offen	Germany	4,587	36	21	85.9	47.8
4	Korea Lines	Korea	4,524	20	160	75.5	61.8
5	Hanjin Transportation	Korea	3,386	20	65	80.7	51.0
6	CMA-CGM	France	3,235	31	79	79.1	94.4
7	Oman Shipping	Oman	3,180	10	1,535	66.5	13.3
8	Geden Line	Turkey	3,133	35	256	60.5	66.0
9	Nordcapital	Germany	2,976	24	87	79.3	86.3
10	Enterprises Shipping	Greece	2,848	18	66	81.6	97.3
11	Angelicooussis Group	Greece	2,745	13	31	67.8	72.9
12	Marmaras Nav	Greece	2,575	13	53	100.0	38.5
13	Seaspan Container	Canada	2,365	23	105	93.3	47.7
14	Grand Union	Greece	2,359	23	132	95.7	70.0
15	Zim Integrated Shipping	Israel	2,279	18	165	100.0	28.3
16	Zodiac Maritime	UK	2,232	12	18	62.2	20.3
17	MPC Group	Germany	2,231	30	269	97.1	28.2
18	Danaos Shipping	Greece	2,003	22	116	79.9	37.2
19	Metrostar Management	Greece	1,952	27	135	100.0	90.2
20	Rickmers Reederei	Germany	1,831	17	91	68.7	78.0
21	United Arab Shipping	Kuwait	1,755	19	87	100.0	16.5
22	Mediterranean Shipping	Switzerland	1,590	10	17	89.3	83.1
23	Chang Myung Shipping	Korea	1,519	19	69	74.0	84.9
24	ST Shipping & Trans	Singapore	1,470	30	672	100.0	73.9
25	Hapag-Lloyd	Germany	1,442	14	38	100.0	57.1
Total (avg)			69,722	570	(183.8)	(85.1)	(57.0)

Source: KDB

Shipbuilding turnaround hinges on recovery of shipping industry

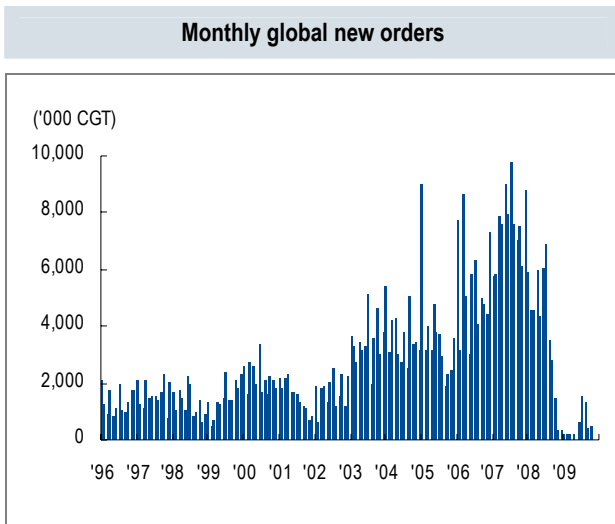
Global shipbuilding orders fell sharply due to supply glut: the surge in vessel deliveries to the shipping industry pushed down freight rates, thereby hurting the shipbuilding industry. Meanwhile, the softer global financial markets have undermined new vessel financing, and as financially-strapped shipping companies and vessel owners have either cancelled orders or delayed deliveries, the shipyards will likely remain weak through 1H10.

Vessel demolition key to supply-demand balance

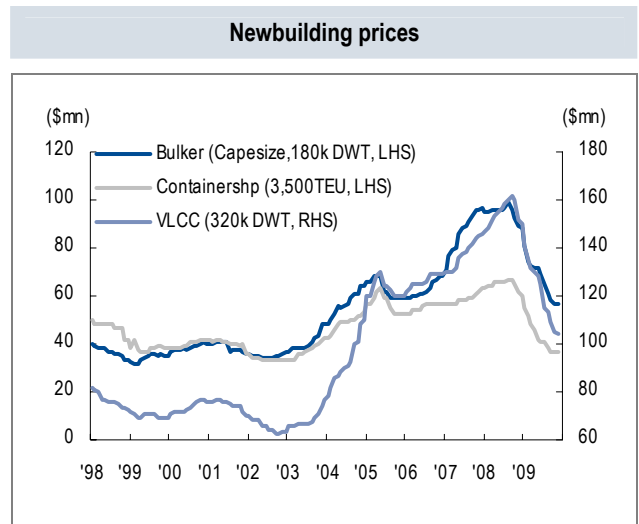
If the supply glut is to fade, vessel demolition has to increase in the shipping industry. For example, in 2002 and 2003, increased vessel demolition revived the shipping market and increased shipbuilding orders. Similarly this time around, we believe more vessel demolition would help the shipping and shipbuilding industries improve the supply-demand balance.

Global shipbuilding orders to pick up in 2H10

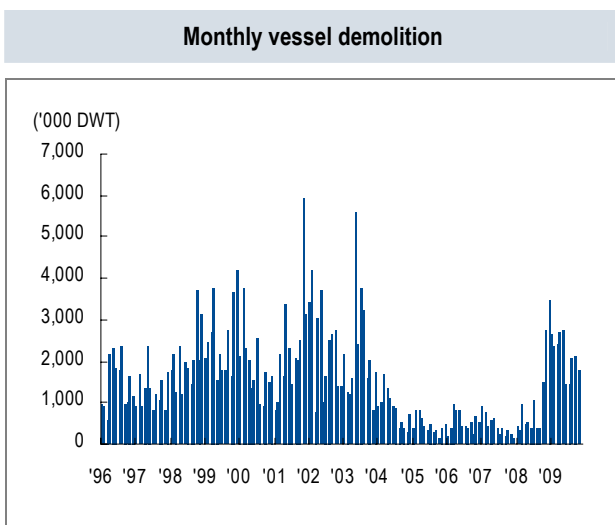
Global shipbuilding orders have plunged in 2009, but should pick up in 2H10, albeit later than expected. We expect orders to normalize in 2011, positively impacting newbuilding prices.



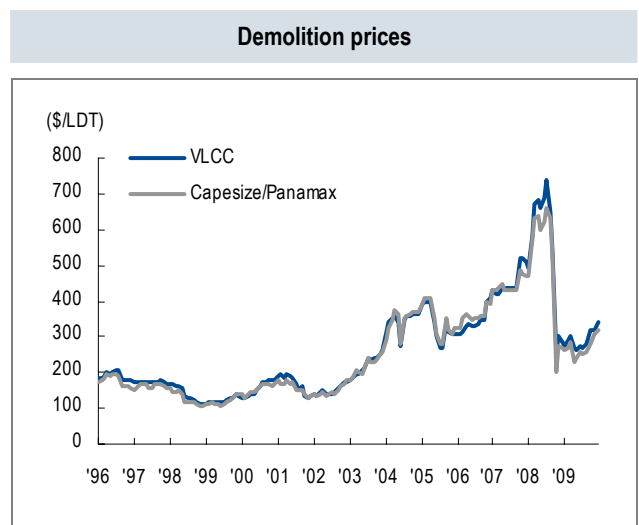
Source: Clarkson, Woori I&S Research Center



Source: Clarkson, Woori I&S Research Center

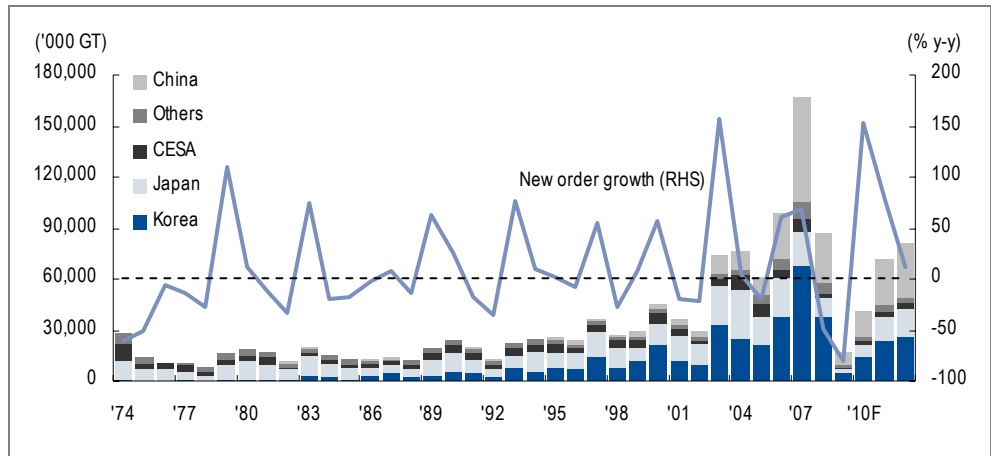


Source: Clarkson, Woori I&S Research Center



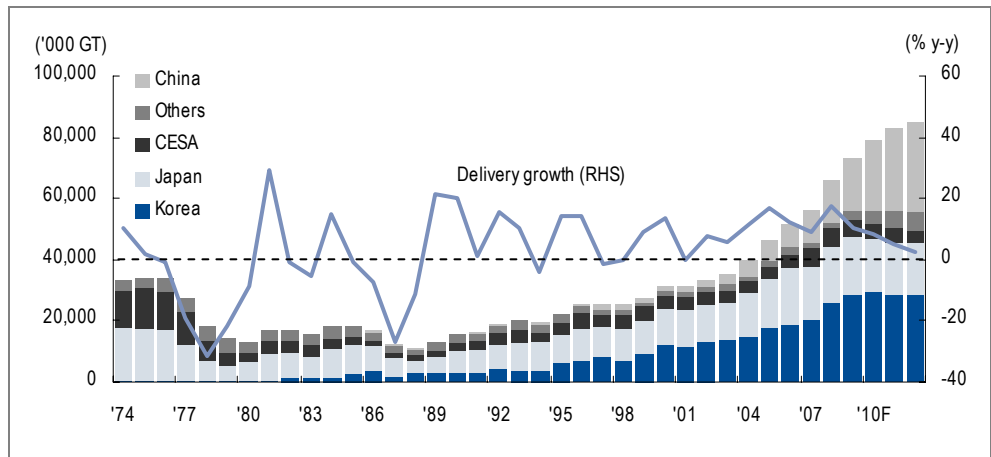
Note: LDT: light displacement tonnage
Source: Clarkson, Woori I&S Research Center

Global new shipbuilding orders



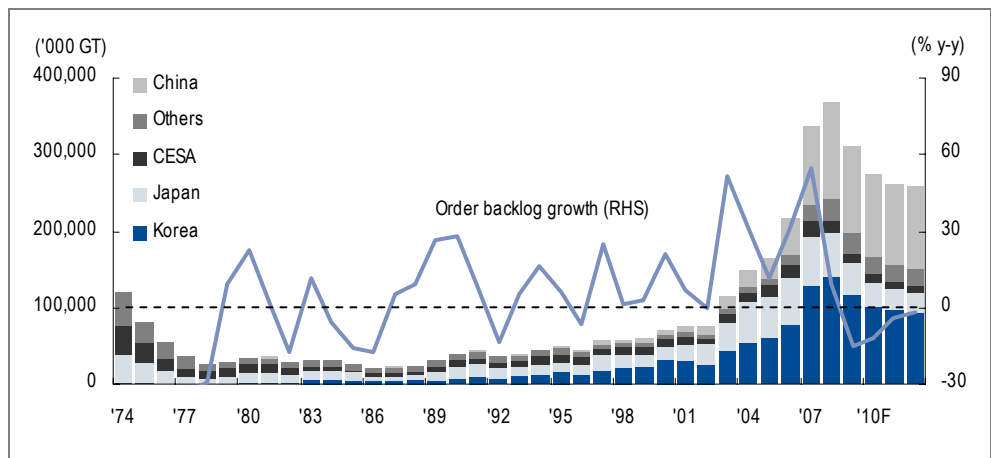
Source: Lloyd's, Woori I&S Research Center estimates

Global deliveries



Source: Lloyd's, Woori I&S Research Center estimates

Global shipbuilding order backlogs



Source: Lloyd's, Woori I&S Research Center estimates

IV. Offshore and plant units to emerge as new growth drivers

Offshore/plant to enjoy booms as oil prices rise

The global offshore/plant businesses have grabbed the market attention in line with the rising oil prices. Annually, it is estimated that about \$7~8bn capital will be invested globally for oil mine development. As the rising oil prices should make deep-sea oil mine development become economically feasible, demand for floating offshore facility should continue to rise. In particular, development of deep-sea oil fields in the Northern Sea, western Africa, and Brazil should be actively pursued. In 2009, investment in oil mine development contracted temporarily, due to the economic recession, but after 2H09, global orders began to recover, and strong order stream is expected in 2010. Given that oil price uptrend is expected to continue in line with the global economic recovery, we believe large-scale investment in offshore/plant businesses will continue over a mid-to long-term.

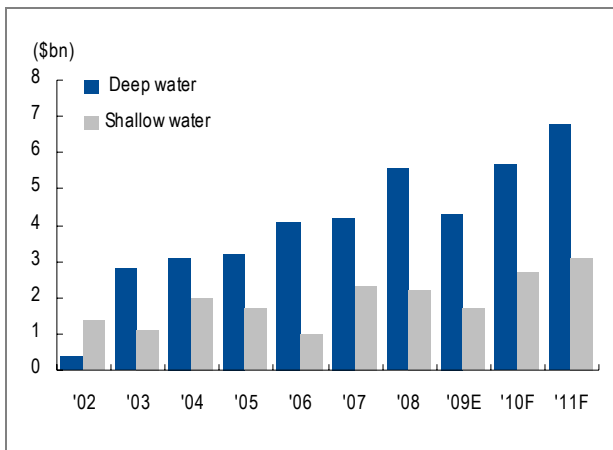
2009: strong offshore orders make up for plunge in shipbuilding

As for the domestic shipbuilding industry, shipbuilding orders have dropped sharply in 2009, but there have been steady offshore/plant orders. In July, SHI announced a long-term deal to supply LNP-FPSO to Royal Dutch Shell, followed by an October announcement by HHI that it won a gas order worth W2.4tn for the Gorgon project. We predict that growing offshore/plant orders will make up for the drastic drop in shipbuilding orders for Korean shipbuilders.

2010: Petrobras to be major player in offshore market

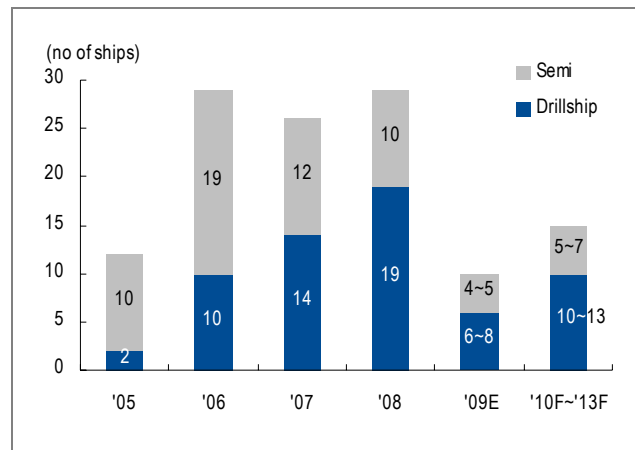
In 2010, we expect Petrobras to be a major player in the offshore market, as a major development project (estimated \$45.0bn) is scheduled to begin in 2Q. The project will require an estimated 28 drillships (\$15bn; deep-sea drilling) and 40 FPSOs (\$30bn). Accordingly, the Brazilian oil company is expected to place orders gradually. As of November, bids for floating natural gas storage facilities (LNG-FPSO) amounting to \$1.5bn has begun, and HHI and SHI are competing. Going forward, three major domestic shipyards are expected to participate in bids, such as Exxon Mobile's expected offshore project orders from 2Q and Russian orders from 2H.

Global floating offshore facility investment



Source: Global Offshore Prospects, Douglas-Westwood, Woori I&S Research Ctr

Deep-sea drill ship order receipts

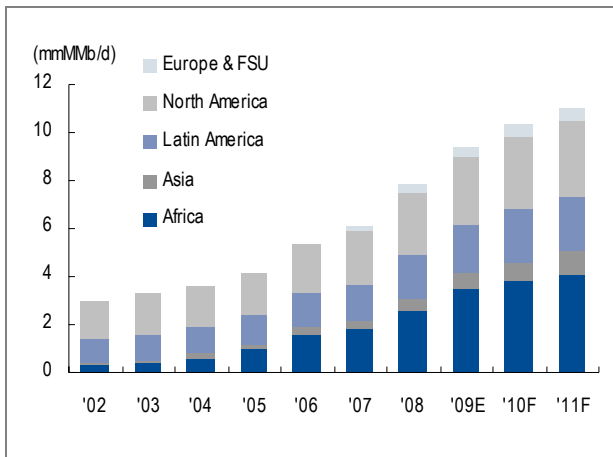


Source: Industry data, Woori I&S Research Center

Offshore/plant businesses – new high-growth industries

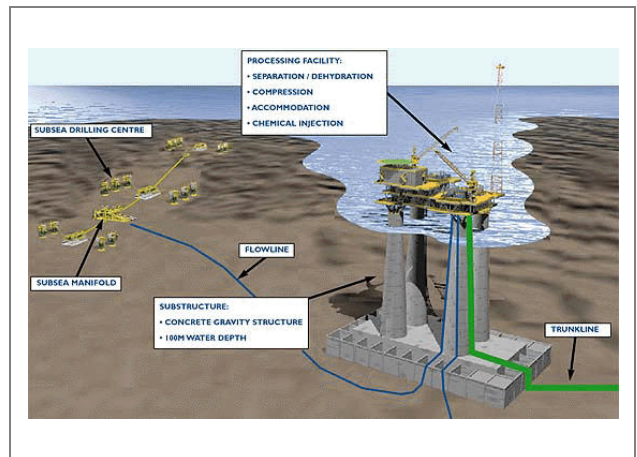
We expect the offshore and plant divisions to emerge as growth driver to replace shipbuilding. In addition, we see Korean shipbuilders evolving into heavy industry plays by increasing their exposures to the offshore business. In particular, Korean shipyards may lag their Chinese peers in the next shipbuilding upcycle, and thus, they will likely have to rely more on non-shipbuilding operations, such as offshore/plant. We believe the growth of non-shipbuilding business will determine Korean shipbuilders’ share performance going forward.

Global deepsea oil and gas production volume, by region



Source: World Offshore Oil & Gas Forecast 2007~2011, Douglas-Westwood

Gorgon gas project in Australia



Source: Overseas industry data, HHI

HHI's major overseas offshore projects

Type	No of projects	Key projects
Fixed	Platforms	84
	Onshore facilities	9
	Jack-up rig	3
Floating	Semi-submersible drilling rig	10
	FPSO	9
	TLP	1
	FPU	4
Underwater pipeline	4,974km	Mumbai Uran Trunkline

Source: HHI

HHI's major plant projects

Type	Key projects
Chemical	Oil & gas
	Tank form
	Refinery & petrochem
	Gas to liquid
Power generation	Gas turbine
	Thermal
	Cogeneration
	Independent water and power project

Source: HHI

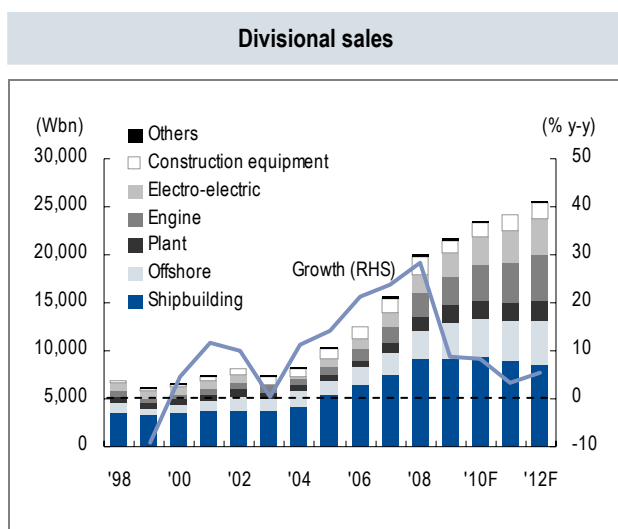
V. Stable earnings on solid non-shipbuilding orders

Non-shipbuilding units to take greater share of sales

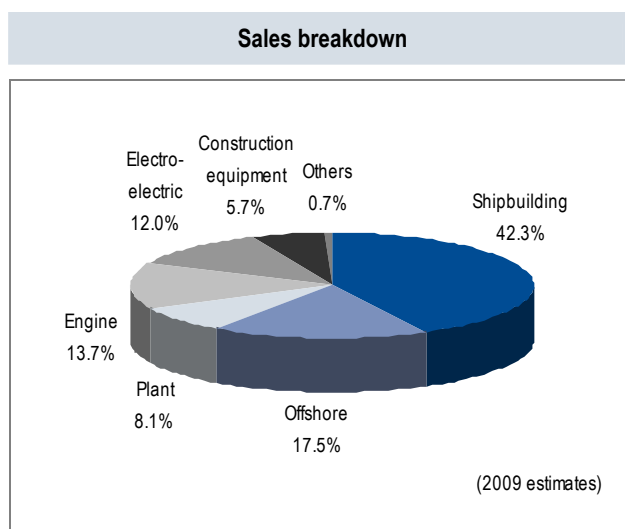
Despite the shipbuilding slump, HHI is seeing stable bottom-line growth on solid offshore/plant earnings. Over 1Q~3Q09, it posted sales of W15,810.5bn (up 13.7% y-y), breaking down as: offshore W2,698.5bn (up 51.8% y-y), plant W1,280.7bn (up 51.0% y-y), and electro/electric systems W1,972.7bn (up 41.9% y-y). We now expect 2010 and 2011 sales of W23,498.6bn (up 8.3% y-y) and W24,257.9bn (up 3.2% y-y), respectively. Of note, earnings should slow in 2011 on weaker shipbuilding orders.

Divisional sales		(Units: Wbn, %)						
		2006	2007	2008	2009E	2010F	2011F	2012F
Shipbuilding	Sales	6,442.8	7,556.7	9,084.9	9,183.9	9,433.6	9,026.3	8,540.8
	Growth	21.0	17.3	20.2	1.1	2.7	-4.3	-5.4
	%	51.3	48.6	45.5	42.3	40.1	37.2	33.3
Offshore	Sales	1,934.6	2,222.1	3,095.1	3,785.3	3,942.7	4,055.0	4,552.8
	Growth	31.1	14.9	39.3	22.3	4.2	2.8	12.3
	%	15.4	14.3	15.5	17.5	16.8	16.7	17.8
Plant	Sales	601.6	1,016.6	1,374.4	1,752.8	1,847.6	1,918.0	2,141.6
	Growth	-2.8	69.0	35.2	27.5	5.4	3.8	11.7
	%	4.8	6.5	6.9	8.1	7.9	7.9	8.4
Engine	Sales	1,219.6	1,645.7	2,522.1	2,966.0	3,633.3	4,200.1	4,750.4
	Growth	27.8	34.9	53.3	17.6	22.5	15.6	13.1
	%	9.7	10.6	12.6	13.7	15.5	17.3	18.5
Electro-, electric systems	Sales	1,056.5	1,453.4	1,924.5	2,610.9	3,046.5	3,261.1	3,674.8
	Growth	30.4	37.6	32.4	35.7	16.7	7.0	12.7
	%	8.4	9.4	9.6	12.0	13.0	13.4	14.3
Construction equipment	Sales	1,197.9	1,512.0	1,768.6	1,245.1	1,428.1	1,612.4	1,760.7
	Growth	13.9	26.2	17.0	-29.6	14.7	12.9	9.2
	%	9.5	9.7	8.9	5.7	6.1	6.6	6.9
Others	Sales	101.8	126.5	187.5	148.1	166.8	185.0	201.1
	Growth	-16.0	24.2	48.2	-21.0	12.6	10.9	8.7
	%	0.8	0.8	0.9	0.7	0.7	0.8	0.8
Total	Sales	12,554.8	15,533.0	19,957.1	21,692.1	23,498.6	24,257.9	25,622.1
	Growth	21.3	23.7	28.5	8.7	8.3	3.2	5.6

Source: HHI, Woori I&S Research Center estimates



Source: HHI, Woori I&S Research Center estimates



Source: HHI, Woori I&S Research Center estimates

Shipbuilding orders plunge in 2009; offshore/plant orders strong

While shipbuilding orders plunged in 2009, offshore/plant orders rose sharply. In particular, HHI sealed a deal for US\$2.06bn in orders for the Gorgon LNG project in Australia with Chevron (US) on Oct 21, and won a US\$1.4bn Myanmar SHWE gas field project on Nov 2. As of November, the company's offshore orders totaled US\$3.8bn. We believe shipbuilding orders will remain soft in 2010, but that non-shipbuilding orders will rise.

Jan~Oct orders total only US\$9.98bn

In 2009, orders were particularly weak for shipbuilding and engines. As of Oct 2009, total orders slid 63.2% y-y to US\$9.98bn, equivalent to 36.8% of the company's target. Orders break down as: shipbuilding US\$440mn (down 96.8% y-y), offshore US\$2.34bn (down 19.1% y-y), plant US\$2.71bn (up 31.3% y-y), engine US\$1.27bn (down 72.3% y-y), electro-electric systems US\$2.29bn (up 6.6% y-y), and construction equipment US\$930mn (down 46.1% y-y). While orders are weak overall, offshore, plant, and electro-electric system orders were solid.

Stable order backlog of US\$42.6bn

As of October, HHI's order backlog totaled US\$42.6bn, or 2.5 years of work, breaking down as: shipbuilding US\$24.87bn, offshore US\$6.78bn, plant US\$4.5bn, engine US\$4.61bn, and electro-electric US\$1.81bn. On the downside, despite the ample backlog, the shipbuilding division will likely be burdened by weak orderflows, order cancellations, and delayed vessel deliveries.

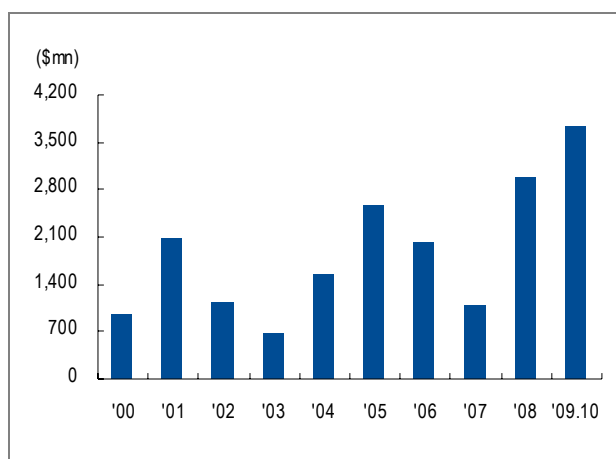
New orders and order backlog

(Units: \$mn, %)

Division	2009 target	As of Oct 2009	As of Oct 2008	Achievement (%)	Chg (y-y)	Order backlog
Shipbuilding	7,572	444	13,689	5.9	-96.8	24,865
Offshore	3,000	2,338	2,891	77.9	-19.1	6,779
Plant	2,840	2,708	2,062	95.4	31.3	4,498
Engine	3,800	1,272	4,590	33.5	-72.3	4,608
Electro/electric	2,625	2,286	2,145	87.1	6.6	1,805
Const equip	1,264	929	1,722	73.5	-46.1	-
Total	21,101	9,977	27,099	47.3	-63.2	42,555

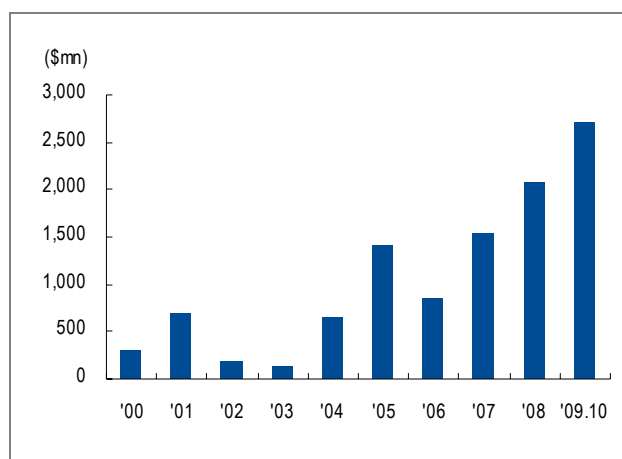
Note: Order backlog reflects sales booked in line with project progress. Offshore totals US\$3.8bn if US\$1.4bn order (Nov 2) included
Source: HHI

Offshore orders



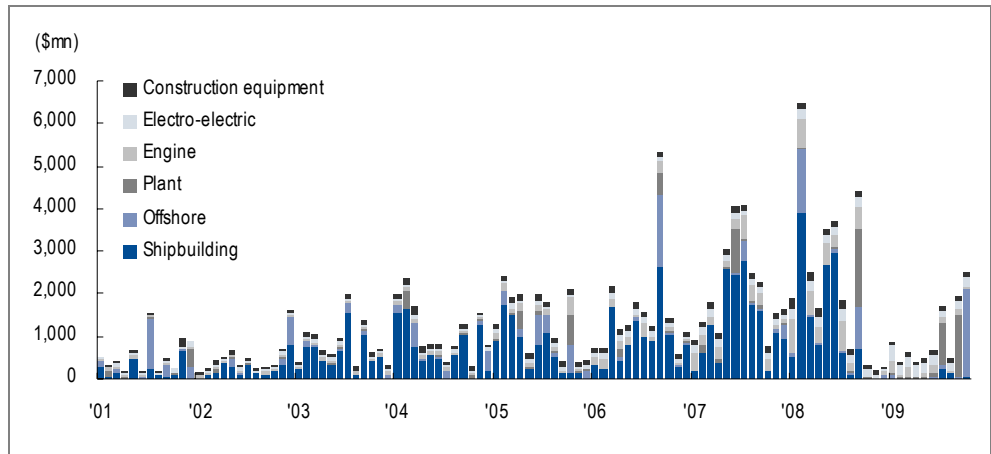
Note: Includes US\$1.4bn Myanmar project
Source: HHI, Woori I&S Research Center estimates

Plant orders



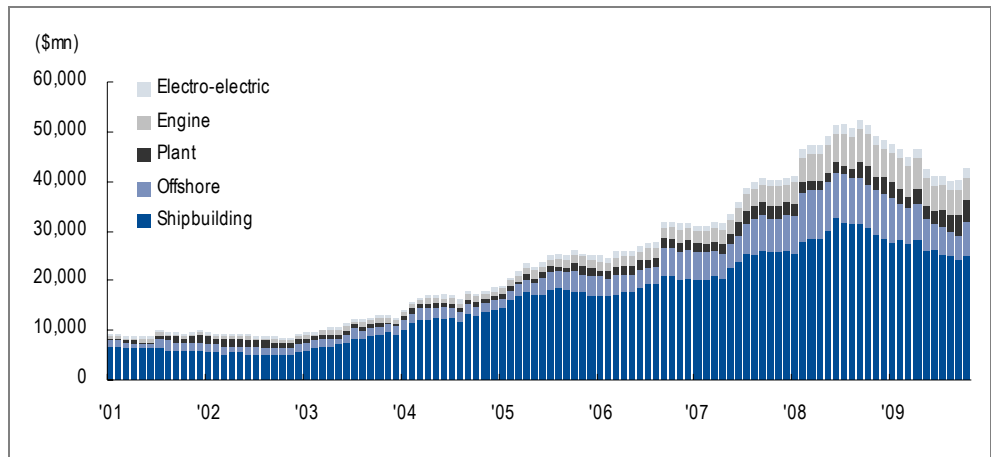
Source: HHI, Woori I&S Research Center estimates

Monthly divisional orders



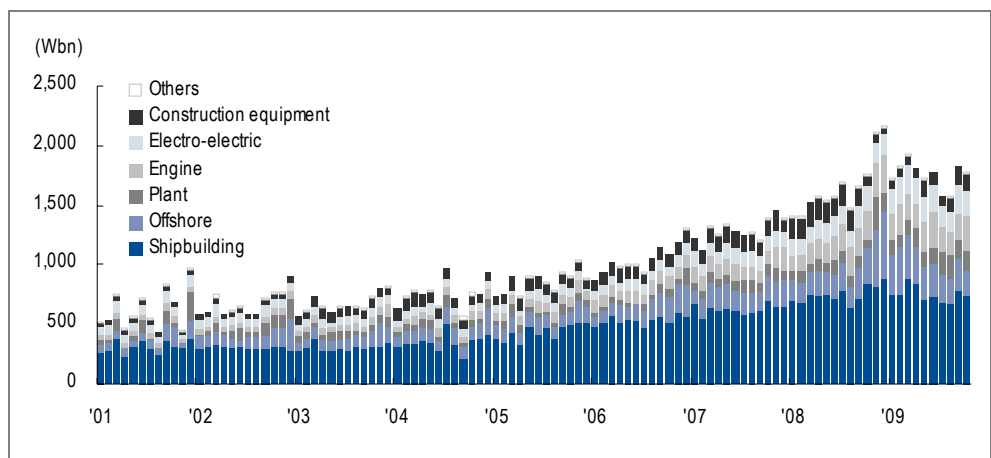
Source: HHI, Woori I&S Research Center

Monthly divisional order backlogs



Source: HHI, Woori I&S Research Center

Monthly divisional sales



Source: HHI, Woori I&S Research Center

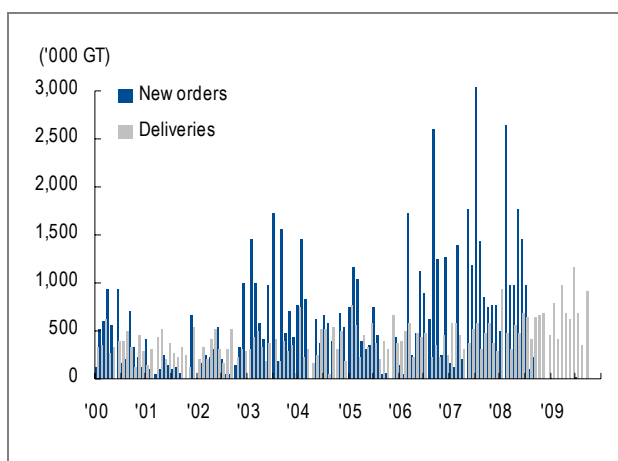
Annual orders						(Units: \$mn, %)
Division	2004	2005	2006	2007	2008	2009.1~10
Shipbuilding	8,488	8,272	11,470	15,730	13,635	444
Offshore	1,529	2,577	1,997	1,102	2,978	2,338
Plant	657	1,410	846	1,544	2,076	2,708
Engine	898	1,566	1,879	3,248	4,646	1,272
Electro-electric system	708	1,004	1,274	1,766	2,281	2,286
Construction equipment	1,125	1,285	1,525	1,630	1,857	929
Total	13,405	16,114	18,991	25,020	27,473	9,977

Note: 2009 shipbuilding orders: 10 vessels, US\$400mn, 1 RoRo, 9 special vessels
 Source: HHI

2009 offshore/plant orders		
Date	Project	Detail
Nov 3	Myanmar gas field	- Placed by Daewoo International; US\$1.4bn (W1,660bn) - Turnkey project for offshore platform/submarine pipeline - Gas field to be established 70km offshore from west Myanmar by 2013
Oct 22	Australian LNG gas project	- Placed by Chevron; \$2.06bn (W2,400bn) - LNG offshore plant project - 48 large-sized modules (190,000 tons) to be built by 2013
Sep 16	Kuwait combined cycle power plant	- Placed by Kuwait; project to build nation's largest combined-cycle power plant - US\$2.6bn deal won jointly with GE - 2,000MW combined-cycle power plant to be completed by 2012
Jul 17	UAE gas plant	- Placed by UAE state gas corporation; US\$1bn - To be completed by Sep 2013

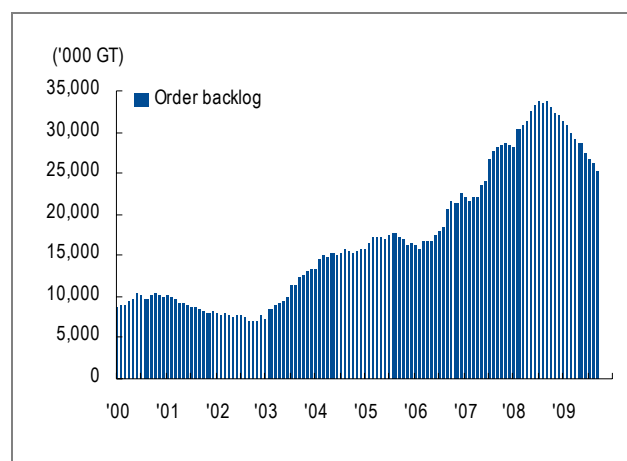
Source: industry data, Woori I&S Research Center

Monthly shipbuilding orders and deliveries



Source: HHI, Woori I&S Research Center estimates

Monthly shipbuilding order backlog



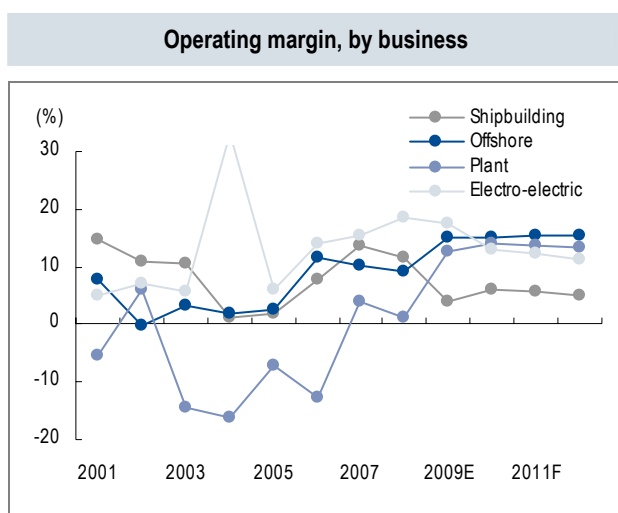
Source: HHI, Woori I&S Research Center estimates

Margins at non-shipbuilding units improve

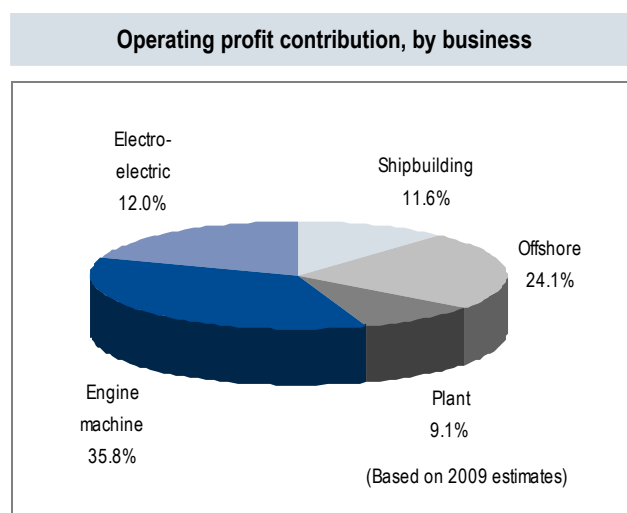
HHI's overall margins have stalled recently, but considering the bearish performance of the shipbuilding division, we believe its present margins are very healthy. In detail, the shipbuilding division's operating margin from 19.4% in 1Q08 to 5.4% in 3Q09. In 2H09, the division's operating profit has stabilized thanks to falling raw material cost, but its operating margin remains below the company's average. In contrast, its non-shipbuilding divisions (offshore, plant) have expanded their earnings contributions in line with rising sales and margins.

OP forecast by business unit		(Units: Wbn, %)						
		2006	2007	2008	2009E	2010F	2011F	2012F
Shipbuilding	OP	504.4	1,038.0	1,066.7	364.6	569.8	516.3	429.6
	Growth	364.6	105.8	2.8	-65.8	56.3	-9.4	-16.8
	Contribution	57.4	59.3	48.4	16.8	21.7	20.0	17.0
	OP margin	7.8	13.7	11.7	4.0	6.0	5.7	5.0
Offshore	OP	222.5	225.7	289.0	568.9	596.5	622.0	701.1
	Growth	479.9	1.4	28.1	96.8	4.8	4.3	12.7
	Contribution	25.3	12.9	13.1	26.2	22.7	24.1	27.8
	OP margin	11.5	10.2	9.3	15.0	15.1	15.3	15.4
Plant	OP	-77.3	40.4	17.1	219.6	257.7	262.4	284.0
	Growth	RR	TTP	-57.7	1,185.2	17.4	1.8	8.2
	Contribution	-8.8	2.3	0.8	10.1	9.8	10.1	11.3
	OP margin	-12.9	4.0	1.2	12.5	14.0	13.7	13.3
Engine machine	OP	205.8	345.6	613.6	840.6	971.9	1,019.0	980.5
	Growth	118.1	67.9	77.6	37.0	15.6	4.8	-3.8
	Contribution	23.4	19.7	27.8	38.7	36.9	39.4	38.9
	OP margin	16.9	21.0	24.3	28.3	26.8	24.3	20.6
Electro-electric	OP	149.7	224.1	359.7	452.5	393.3	402.8	419.7
	Growth	200.0	49.7	60.5	25.8	-13.1	2.4	4.2
	Contribution	17.0	12.8	16.3	20.8	15.0	15.6	16.7
	OP margin	14.2	15.4	18.7	17.3	12.9	12.4	11.4
Construction equipment	OP	98.1	129.5	113.4	-21.1	99.1	116.6	140.9
	Growth	50.0	32.1	-12.5	TTL	TTP	17.6	20.8
	Contribution	11.2	7.4	5.1	-1.0	3.8	4.5	5.6
	OP margin	8.2	8.6	6.4	-1.7	6.9	7.2	8.0
SG&A expense		-224.3	-252.4	-253.3	-253.4	-258.0	-352.8	-435.8
Total OP		878.9	1,750.7	2,206.2	2,171.6	2,630.4	2,586.2	2,519.9
Total Growth		867.4	99.2	26.0	-1.6	21.1	-1.7	-2.6
Total OP margin		7.0	11.3	11.1	10.0	11.2	10.7	9.8

Source: HHI, Woori I&S Research Center estimates



Source: HHI, Woori I&S Research Center estimates



Source: HHI, Woori I&S Research Center

Offshore's 3Q operating margin at 20.5%

In 3Q09, HHI's offshore and plant divisions posted operating margins of 20.5% and 14.4%, respectively, up sharply from 1.5% and -16.7% a year ago. We attribute the strong margin improvement to full-fledged sales recognition of profitable projects. Given the continued flow of orders in 2009, we expect their margins to continue to improve in 2010 and onwards.

2010-2011 op margin estimated at 11.2% and 10.7%, respectively

Meanwhile, HHI's 2010 and 2011 COGS-to-sales ratios should stabilize at 84.1% and 84.6%, respectively, with SG&A expense-to-sales ratios of 4.7% and 4.7%. Falling prices for steel materials and stabilizing prices for other raw material prices should help lower HHI's cost burden. Accordingly, we forecast HHI's 2010 and 2011 operating profit at W2,630.4bn (21.1% y-y) and W2,586.2bn (-1.7% y-y), respectively, with operating margins of 11.2% and 10.7%.

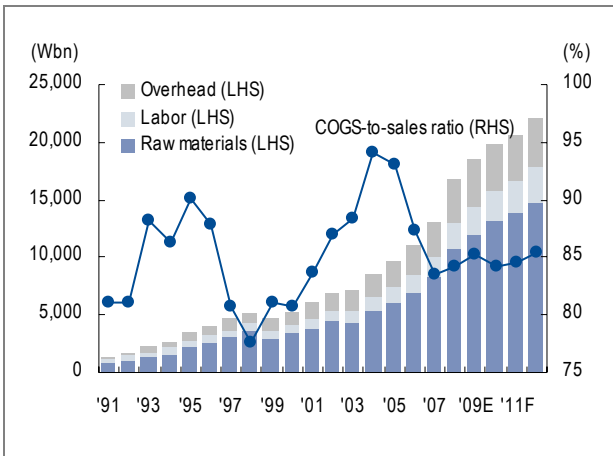
Increased borrowing inevitable due to drastic drop in advance payment inflow

New shipbuilding orders have dropped sharply since 2H08, and accordingly, advance payment inflows have dried up, forcing HHI to seek external borrowings for operating capital. The company issued W300bn in debentures in 1H09, and we believe it will engage in additional capital-raising efforts in 2010. Such increased borrowings will likely lead to higher interest expenses.

Per share indicators to maintain stable uptrend

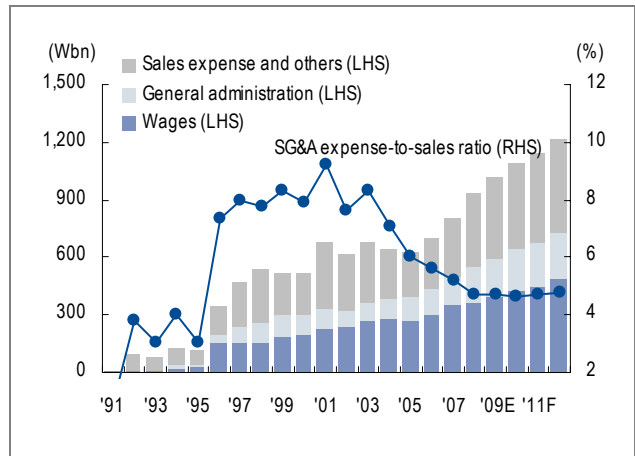
We estimate HHI's 2010 and 2011 ROEs at 32.5% and 27.1%, respectively, with ROICs of 52.7% and 38.2%. Meanwhile, we expect 2010 and 2011 EPS of W37,165 and W40,394, respectively, and EBITDA/share of W40,497 and W39,946.

COGS



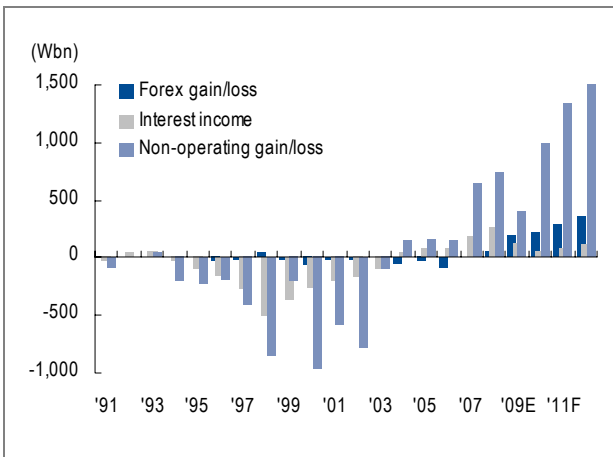
Source: HHI, Woori I&S Research Center estimates

SG&A expense



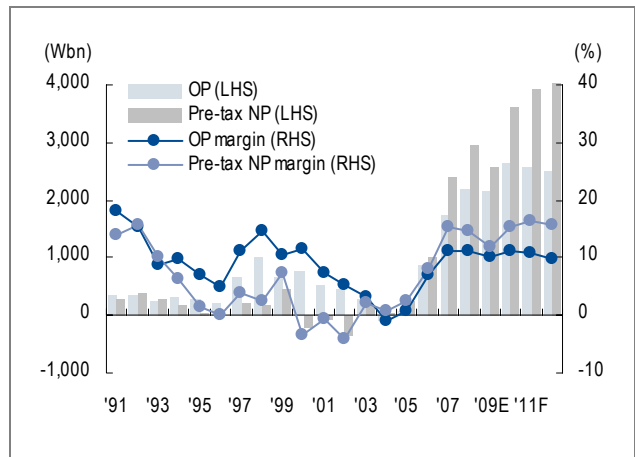
Source: HHI, Woori I&S Research Center estimates

Forex gains/losses



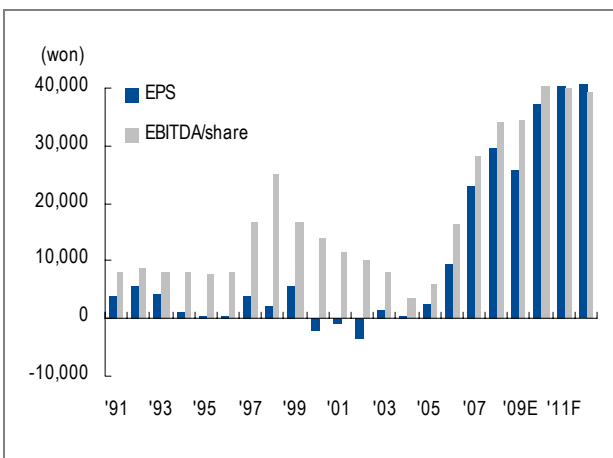
Source: HHI, Woori I&S Research Center estimates

Operating margin and pre-tax margin



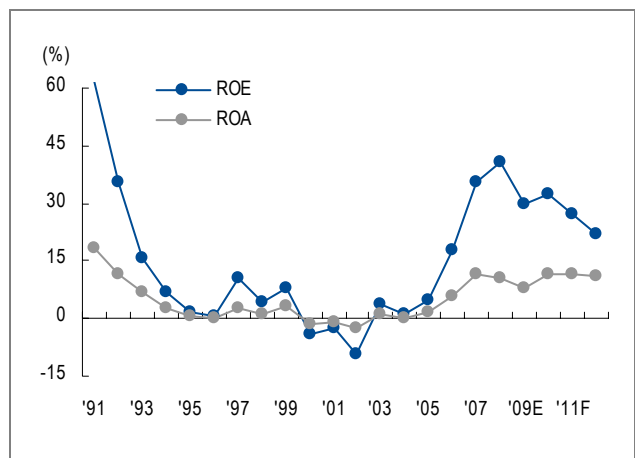
Source: HHI, Woori I&S Research Center estimates

Per share indicators



Source: HHI, Woori I&S Research Center estimates

Profitability indicators



Source: HHI, Woori I&S Research Center estimates

VI. Solid quarterly operating earnings expected in 2010

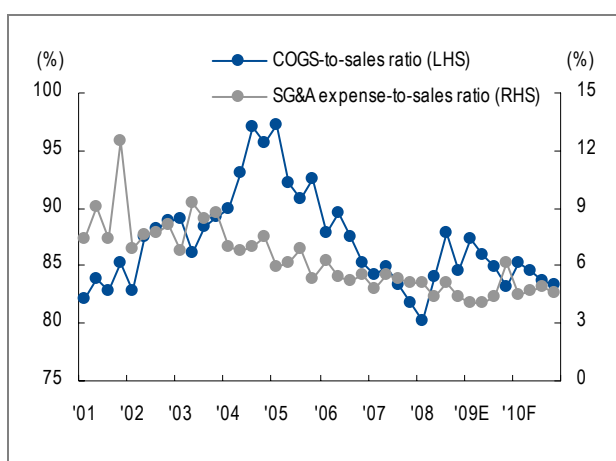
In 3Q09, non-ship divisions' earnings contribution hits 80%

Looking at 3Q09 operating margins by division, shipbuilding's came to 5.4%, offshore 20.5%, plant 14.4%, engine machine 28.3%, electro-electric 12.4%, and construction equipment 1.9%. More recently, the company's shipbuilding operating margin has deteriorated, while offshore and plant margins have improved strongly and the electro-electric and engine machine units are also posting sound margins. We note that in 3Q09, non-shipbuilding divisions contributed 57.4% of sales, but 80% of operating profit.

Quarterly operating margins estimated at 10~11% in 2010

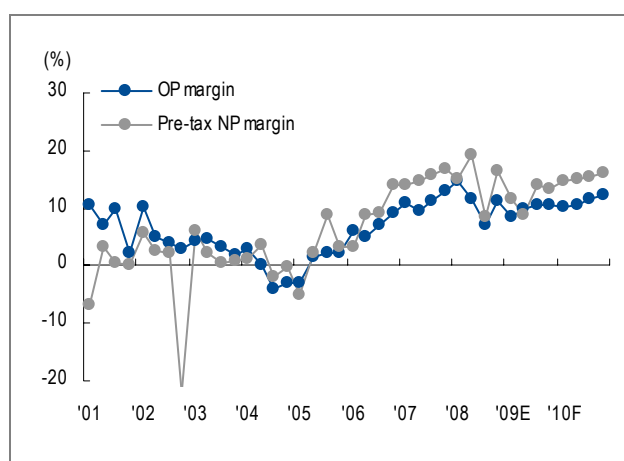
In 4Q09, we estimate sales at W5,881.6bn (-2.8% y-y), operating profit at W628.7bn (-6.9% y-y), and operating margin at 10.7%. We expect quarterly earnings to be stable in 2010 on strong results from the offshore and plant divisions. Meanwhile, we expect the shipbuilding division to weaken due to delivery delays. In 2010, quarterly operating margins should be sound at around 10~11%. By division, offshore, plant, and engine and machinery should continue to generate strong margins, while shipbuilding's will likely disappoint. We also expect electro-electric division's margin to weaken, while construction equipment should post full-fledged recovery from 2Q10.

Quarterly COGS-to-sales ratio, SG&A expense-to-sales



Source: HHI, Woori I&S Research Center estimates

Quarterly operating margin and pre-tax margin



Source: HHI, Woori I&S Research Center estimates

Quarterly earnings

(Units: Wbn, %, won)

	2008				2009E				2010F			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QF	2QF	3QF	4QF
Sales	4,354.1	4,709.0	4,843.2	6,050.9	5,493.6	5,331.0	4,985.8	5,881.6	5,503.5	5,740.0	5,999.2	6,255.9
OP	639.6	547.5	344.1	675.0	471.4	539.8	531.8	628.7	568.9	614.8	685.5	761.2
Pre-tax	650.7	902.6	405.5	990.7	633.1	471.1	698.8	774.8	816.6	862.5	933.2	1,008.9
NP	442.3	655.2	291.8	867.3	498.3	393.1	533.8	528.9	636.9	672.8	727.9	786.9
OP margin	14.7	11.6	7.1	11.2	8.6	10.1	10.7	10.7	10.3	10.7	11.4	12.2
Pre-tax margin	14.9	19.2	8.4	16.4	11.5	8.8	14.0	13.2	14.8	15.0	15.6	16.1
EPS	23,279	34,485	15,359	45,649	26,225	20,688	28,096	27,837	33,522	35,409	38,312	41,417
Trailing EPS	23,781	26,909	25,029	29,693	30,429	26,980	30,164	25,712	27,536	31,216	33,770	37,165

Note: Quarterly EPS on annualized basis

Source: HHI, Woori I&S Research Center estimates

Quarterly earnings		(Units: Wbn, %)											
		2008				2009E				2010F			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QF	2QF	3QF	4QF
Shipbuilding	Sales	2,159.9	2,213.2	2,156.9	2,554.9	2,411.6	2,276.5	2,124.7	2,371.1	2,279.0	2,338.4	2,346.2	2,470.1
	OP	420.0	334.6	134.3	177.8	67.5	58.9	114.2	124.0	113.3	128.1	150.4	178.0
	OP margin	19.4	15.1	6.2	7.0	2.8	2.6	5.4	5.2	5.0	5.5	6.4	7.2
Offshore	Sales	506.6	604.7	666.2	1,317.6	1,089.2	863.8	745.4	1,086.9	1,021.1	899.8	970.5	1,051.4
	OP	52.9	62.5	10.3	163.3	117.2	109.7	152.6	189.4	167.6	136.1	141.3	151.5
	OP margin	10.4	10.3	1.5	12.4	10.8	12.7	20.5	17.4	16.4	15.1	14.6	14.4
Plant	Sales	248.8	306.2	293.0	526.4	341.7	420.5	518.6	472.0	432.2	443.2	486.5	485.6
	OP	4.4	-54.5	-48.9	116.0	20.9	61.0	74.8	62.8	48.8	65.4	72.0	71.6
	OP margin	1.8	-17.8	-16.7	22.0	6.1	14.5	14.4	13.3	11.3	14.8	14.8	14.7
Engine & machinery	Sales	442.4	546.4	687.3	845.9	679.9	762.5	629.5	894.1	832.9	887.4	925.3	987.8
	OP	99.3	120.9	184.5	208.8	212.2	221.3	178.3	228.7	215.8	225.9	248.4	281.7
	OP margin	22.4	22.1	26.8	24.7	31.2	29.0	28.3	25.6	25.9	25.5	26.9	28.5
Electro-electric systems	Sales	424.6	480.8	484.3	534.8	710.3	666.6	595.8	638.2	643.9	762.3	821.0	819.2
	OP	72.5	82.7	88.6	115.8	161.2	137.5	73.6	80.2	77.1	91.2	106.4	118.6
	OP margin	17.1	17.2	18.3	21.7	22.7	20.6	12.4	12.6	12.0	12.0	13.0	14.5
Construction equipment	Sales	535.8	514.0	501.1	217.7	221.4	305.4	338.3	380.0	253.9	367.8	407.5	399.0
	OP	58.0	53.9	41.3	-39.9	-43.1	13.7	6.3	2.0	9.6	32.1	31.5	25.9
	OP margin	10.8	10.5	8.2	-18.3	-19.5	4.5	1.9	0.5	3.8	8.7	7.7	6.5
Other (incl common cost)	Sales	35.9	43.7	54.3	53.6	39.6	35.7	33.5	39.3	40.6	41.2	42.2	42.8
	OP	-67.6	-52.7	-66.1	-66.9	-64.6	-62.3	-68.1	-58.5	-63.3	-64.2	-64.4	-66.1
	OP margin	4,354.1	4,709.0	4,843.2	6,050.9	5,493.6	5,331.0	4,985.8	5,881.6	5,503.5	5,740.0	5,999.2	6,255.9
Total	Sales	639.6	547.5	344.1	675.0	471.4	539.8	531.8	628.7	568.9	614.8	685.5	761.2
	OP	14.7	11.6	7.1	11.2	8.6	10.1	10.7	10.7	10.3	10.7	11.4	12.2

Source: HHI, Woori I&S Research Center estimates

VII. Dividend play, healthy asset value

2009 payout ratio estimated at 15.3%, dividend yield at 3.2%

HHI has distributed solid dividends thanks to satisfactory earnings. Its 2007 and 2008 dividend per share (DPS) stood at W7,500 and W5,000, respectively, with payout ratios of 27% and 13%. We expect HHI to deliver stable earnings in 2009, and thus, we forecast DPS at W5,000 and payout ratio at 15.3%. Meanwhile, given the sharp pullback recently, HHI's 2009 dividend yield stands at 3.3%. Accordingly, HHI should emerge as dividend play by yearend on high expected dividend yield.

Foreign ownership stabilized at 17.6%

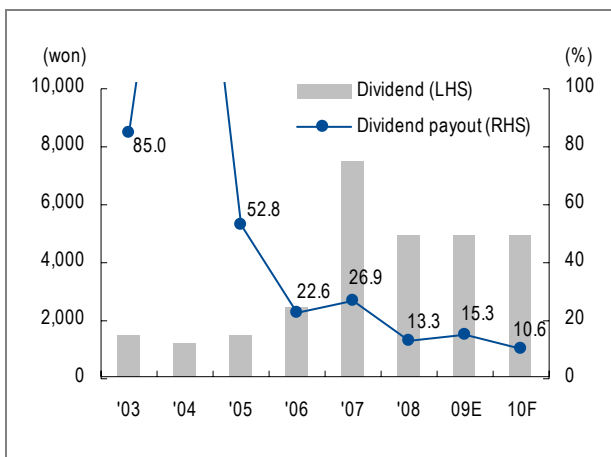
Foreign ownership steadily declined, but has stabilized recently. In particular, foreign investors gradually reduced their weighting of HHI, as global shipbuilding industry reversed to a downtrend. HHI has become undervalued following a steep share price pullback, despite bright mid- to long-term growth prospects at the offshore and plant divisions, and foreign ownership has begun to stabilize. We note that foreign ownership has increased from 14.2% at end-2008 to 17.6% as of Nov 30.

Book value for investment securities estimated at W4,091.3bn

HHI has healthy investment securities, including Hyundai Motor, Hyundai Merchant Marine, Hyundai Oil Bank, and Hyundai Samho Heavy Industries. We estimate the acquisition cost at W2,436.1bn, while book value stands at W4,091.3bn. We estimate valuation gains on listed shares at W292.0bn, and total market value of the holdings at W4,183.6bn.

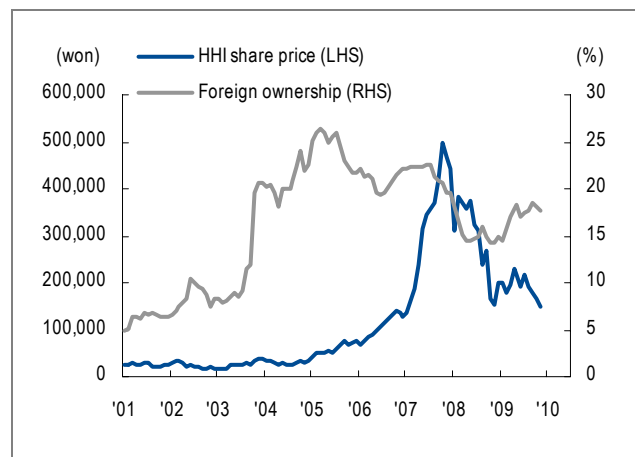
Meanwhile, HHI is expected to sign a contract to acquire Hyundai Corp in mid-December and plans to increase its stake in Hyundai Oil Bank. In addition, HHI is actively seeking M&As with Hyundai Group affiliates. We doubt HHI will face funding difficulties.

Dividend and dividend payout



Source: HHI, Woori I&S Research Center estimates

Foreign ownership and stock performance



Source: HHI, Woori I&S Research Center

Circular ownership

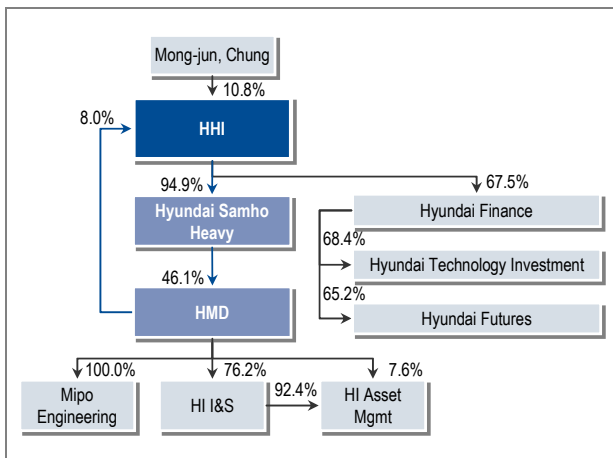
One issue for the HHI Group is circular ownership. HHI has a 94.9% stake in Samho Heavy Industries, Samho Heavy has a 46.1% stake in Hyundai Mipo Dockyard (HMD), and HMD has an 8.0% stake in HHI. We note that the group's size is expanding gradually, led by HHI, and that HHI's ownership structure appears stable, with stock ownership breaking down as: Mong-jun Chung 10.8%, KCC 8.1%, HMD 8.0%, Hyundai Motor 2.9%, treasury stock 20.2%, and foreign investors 17.6% (as of end-Sep 2009).

Investment securities (Units: shrs, Wbn, won, %)

	Company	Stake	No of shares	Acquis cost	Book value	Price per share	Current (11/30)	Market value	Valuation gain
Listed	HMM	17.6	23,424,037	404.0	371.7	17,249	24,300	569.2	165.2
	HMC	3.5	7,603,420	519.2	847.8	68,291	99,000	752.7	233.5
	Hyundai Elevator	2.2	154,009	1.6	9.1	10,599	56,400	8.7	7.1
	Hyundai Corp	0.4	80,224	11.2	1.4	139,951	19,400	1.6	-9.7
	Kia Motors	0.0	88,245	2.7	1.6	30,388	17,150	1.5	-1.2
	Tongyang Sec	3.4	3,986,718	99.8	52.2	25,040	11,550	46.0	-53.8
	Korea Line	2.7	312,283	55.1	15.7	176,541	40,500	12.6	-42.5
	Korea Enterprise Tech	7.6	3,792,000	6.6	4.2	1,745	1,110	4.2	-2.4
	Mirae Asset Sec	0.1	41,963	6.7	2.9	158,572	58,300	2.4	-4.2
	Subtotal	-	-	-	1,107.1	1,306.7	-	-	1,399.0
Unlisted	Hyundai Oil Bank	19.87	48,700,540	266.2	341.9	5,465	-	341.9	-
	Hyundai Samho Hvy	94.92	37,967,000	204.3	1,386.0	5,380	-	1,386.0	-
	Hyundai Finance	67.49	12,350,000	78.2	89.8	6,332	-	89.8	-
	HYMS	100.00	29,600,000	148.0	120.8	5,000	-	120.8	-
	Chemi AM	49.00	16,660,000	83.3	83.5	5,000	-	83.5	-
	Other	-	-	126.7	168.9	-	-	-	168.9
Subtotal	-	-	-	906.6	2,190.9	-	-	2,190.9	-
	Union Investment	-	-	6.2	6.2	-	-	6.2	-
	Subsidiary	-	-	416.2	587.5	-	-	587.5	-
Total	-	-	-	2,436.1	4,091.3	-	-	4,183.6	292.0

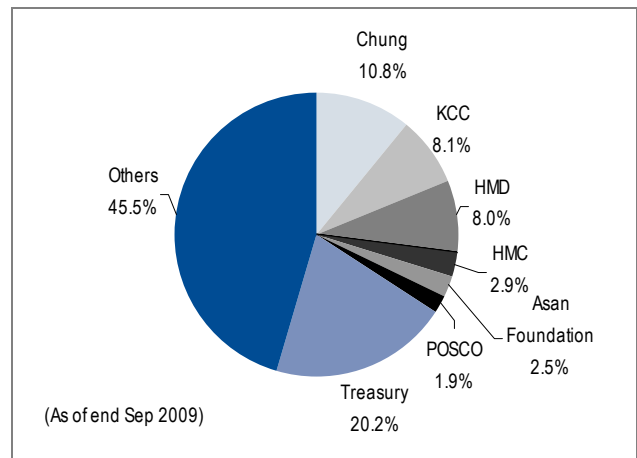
Note: As of end-Sep 2009; valuation gain = (current price - price per share) x no of shares
 Source: HHI, Woori I&S Research Center

Ownership structure



Note: As of end-Sep 2009
 Source: HHI, Woori I&S Research Center

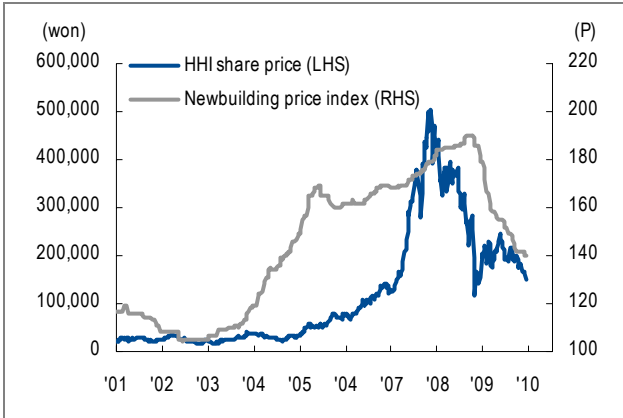
Stock ownership



Source: HHI, Woori I&S Research Center

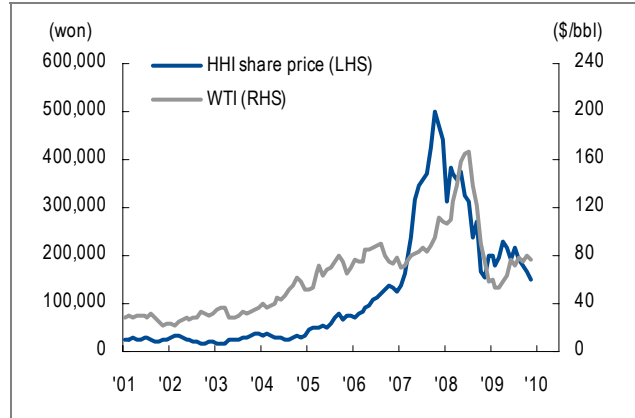
Key drivers & share price trends

HHI share price vs Clarkson newbuilding price index



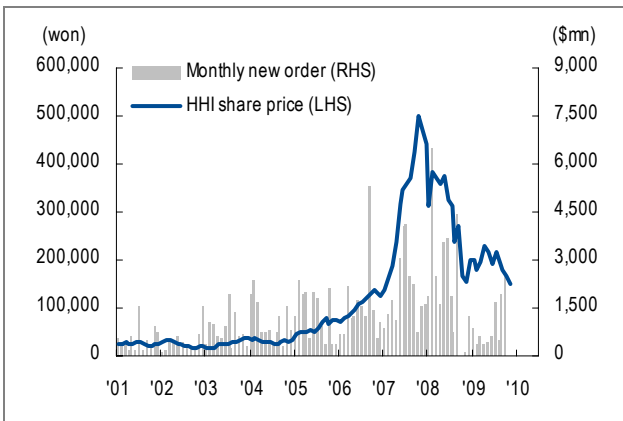
Source: Clarkson, Dataguide Pro, Woori I&S Research Center

HHI share price vs crude oil price (WTI)



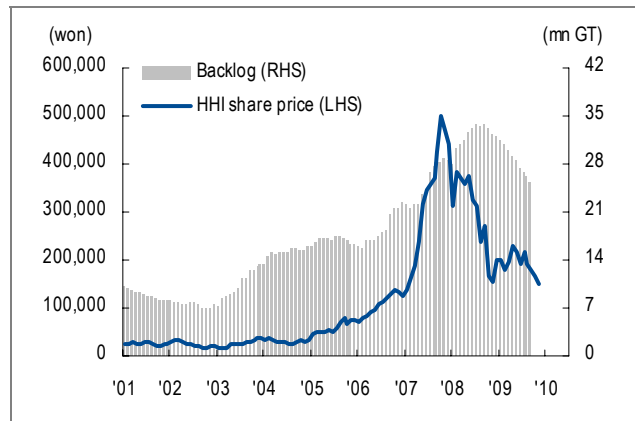
Source: Bloomberg, Dataguide Pro, Woori I&S Research Center

HHI share price vs monthly new orders



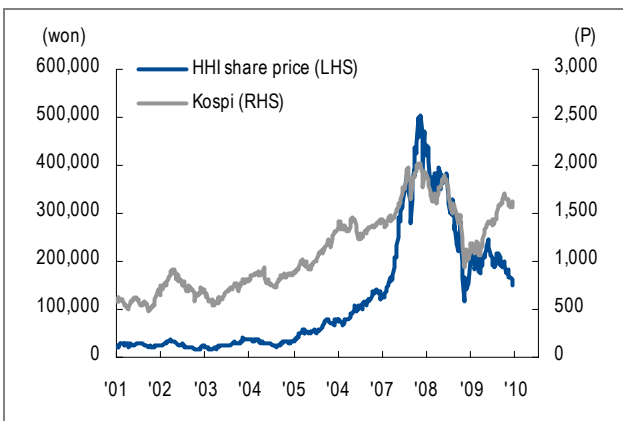
Source: HHI, Dataguide Pro, Woori I&S Research Center

HHI share price vs backlog



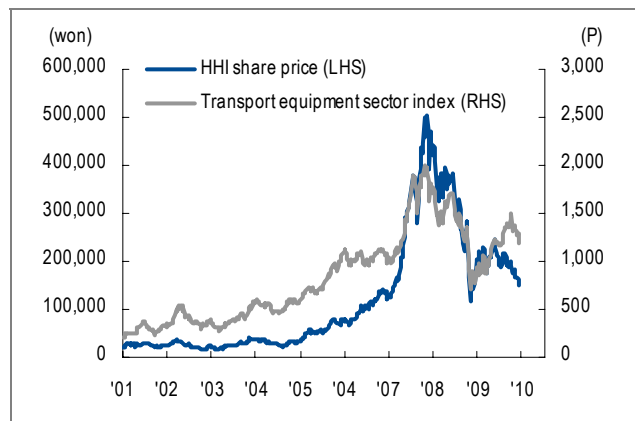
Source: Industry data, Dataguide Pro, Woori I&S Research Center

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

(Wbn)	2007/12A	2008/12A	2009/12E	2010/12F	2011/12F	2012/12F
US GAAP						
Sales	15,533.0	19,957.1	21,692.1	23,498.6	24,257.9	25,622.1
Growth (%)	23.7	28.5	8.7	8.3	3.2	5.6
Manufactured goods portion (%)	0.0	0.0	0.0	0.0	0.0	0.0
Export ratio (%)	88.5	90.0	84.2	83.5	83.0	82.4
Cost of sales (A)	12,645.1	16,484.0	18,122.1	19,383.3	20,127.4	21,477.0
Cost of goods sold	-331.0	-328.0	-382.5	-389.2	-396.7	-406.0
Gross profit (A)	2,887.9	3,473.1	3,570.1	4,115.3	4,130.5	4,145.1
Gross margin (%)	18.6	17.4	16.5	17.5	17.0	16.2
Growth (%)	51.5	20.3	2.8	15.3	0.4	0.4
SG&A (A)	745.3	876.1	951.4	1,037.5	1,094.6	1,170.4
EBITDA	2,142.6	2,597.0	2,618.7	3,077.8	3,035.9	2,974.7
EBITDA margin (%)	13.8	13.0	12.1	13.1	12.5	11.6
Growth (%)	70.4	21.2	0.8	17.5	-1.4	-2.0
Depr & amort	-391.9	-390.8	-447.1	-447.4	-449.7	-454.8
Depreciation	-351.7	-347.3	-405.0	-412.1	-420.0	-429.9
Amortization	-40.2	-43.5	-42.1	-35.3	-29.7	-24.9
EBIT	1,750.7	2,206.2	2,171.6	2,630.4	2,586.2	2,519.9
EBIT margin (%)	11.3	11.1	10.0	11.2	10.7	9.8
Growth (%)	99.2	26.0	-1.6	21.1	-1.7	-2.6
Net interest inc/ (exp)	188.3	273.4	133.2	60.1	73.0	112.9
Interest income	199.7	279.9	164.0	96.2	125.9	167.6
Interest expense	11.4	6.5	30.8	36.1	52.9	54.7
Other Non-operating Income	455.4	470.0	273.1	930.8	1,276.6	1,395.6
Net FC gains/ (losses)	14.4	55.5	202.7	210.5	283.5	353.5
Associates	482.5	619.9	527.6	538.1	548.9	559.9
Net Asset disp gains/ (loss)	-19.5	14.8	0.0	0.0	0.0	0.0
Others	-22.0	-220.2	-457.3	182.1	444.2	482.2
Net Profit before tax	2,394.4	2,949.6	2,577.9	3,621.2	3,935.8	4,028.4
Tax	658.3	693.0	623.9	796.7	865.9	886.2
Net profit	1,736.1	2,256.7	1,954.1	2,824.5	3,069.9	3,142.1
Net margin (%)	11.2	11.3	9.0	12.0	12.7	12.3
Growth (%)	143.5	30.0	-13.4	44.5	8.7	2.4
Adjusted Net Profit	1,397.0	1,755.0	1,685.2	2,527.7	2,702.0	2,705.4
Korean GAAP						
Sales	15,533.0	19,957.1	21,692.1	23,498.6	24,257.9	25,622.1
Cost of sales (B)	12,976.1	16,812.0	18,504.5	19,772.4	20,524.0	21,883.0
Gross profit (B)	2,556.9	3,145.1	3,187.6	3,726.2	3,733.8	3,739.1
Gross margin (%)	16.5	15.8	14.7	15.9	15.4	14.6
Growth (%)	61.7	23.0	1.4	16.9	0.2	0.1
SG&A (B)	806.2	938.9	1,015.9	1,095.8	1,147.6	1,219.2
Operating profit	1,750.7	2,206.2	2,171.6	2,630.4	2,586.2	2,519.9
OP margin (%)	11.3	11.1	10.0	11.2	10.7	9.8
Growth (%)	99.2	26.0	-1.6	21.1	-1.7	-2.6
Non-operating profit	954.8	3,827.1	1,938.0	2,173.6	2,108.1	2,097.9
Non-operating expense	311.1	3,083.6	1,531.7	1,182.7	758.5	589.5
Pre-tax Profit from Continuing Operations	2,394.4	2,949.6	2,577.9	3,621.2	3,935.8	4,028.4
Pre-tax Profit	2,394.4	2,949.6	2,577.9	3,621.2	3,935.8	4,028.4
Tax	658.3	693.0	623.9	796.7	865.9	886.2
Profit from Continuing Operations	1,736.1	2,256.7	1,954.1	2,824.5	3,069.9	3,142.1
Profit from Discontinuing Operations	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	1,736.1	2,256.7	1,954.1	2,824.5	3,069.9	3,142.1
Net profit (excl. associates)	1,253.5	1,636.7	1,426.5	2,286.4	2,521.1	2,582.2
Net profit (excl. pref. dividend)	1,736.1	2,256.7	1,954.1	2,824.5	3,069.9	3,142.1
Total Cash dividends	466.6	299.7	299.7	299.7	299.7	299.7

BALANCE SHEET

(Wbn)	2007/12A	2008/12A	2009/12E	2010/12F	2011/12F	2012/12F
Cash & St. Financial Goods	3,107.9	2,343.9	787.8	1,001.5	1,365.8	1,817.4
Marketable securities	503.4	102.5	0.0	0.0	0.0	0.0
Accounts receivable	2,740.7	4,498.9	4,890.0	5,297.2	5,468.4	5,775.9
Inventories	1,119.2	2,263.3	2,025.7	2,194.3	2,265.2	2,392.6
Total current assets	8,499.5	12,617.6	10,911.4	11,834.5	12,548.9	13,629.4
Growth (%)	36.8	48.4	-13.5	8.5	6.0	8.6
Current asset turnover (X)	2.1	1.9	1.8	2.1	2.0	2.0
Tangible Assets	4,968.8	6,190.0	6,899.1	7,657.4	8,409.7	9,182.1
CAPEX	910.9	1,791.4	1,114.1	1,170.4	1,172.3	1,202.3
Disposal of tangible asset	18.9	83.4	0.0	0.0	0.0	0.0
Depreciation	351.7	347.3	405.0	412.1	420.0	429.9
Investment assets	2,971.8	3,224.4	4,110.0	4,650.7	5,201.3	5,762.2
Intangible assets	236.0	262.3	220.2	184.9	155.2	130.3
Non-current assets	8,324.6	12,662.8	12,620.8	14,000.4	15,322.4	16,718.3
Growth (%)	22.7	52.1	-0.3	10.9	9.4	9.1
Non-liquid asset turnover(x)	2.1	1.9	1.7	1.8	1.7	1.6
Total assets	16,824.1	25,280.4	23,532.2	25,835.0	27,871.3	30,347.7
Growth (%)	29.5	50.3	-6.9	9.8	7.9	8.9
Total asset turnover (X)	1.0	0.9	0.9	1.0	0.9	0.9
Short-term debt	187.3	0.0	0.0	0.0	0.0	0.0
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Current portion of LT debt	187.3	0.0	0.0	0.0	0.0	0.0
Accounts Payable	1,495.2	2,337.3	2,540.5	2,752.0	2,840.9	3,000.7
Other current liabilities	9,205.1	14,136.6	11,351.7	10,406.4	9,565.8	9,027.8
Total current liabilities	10,887.6	16,473.9	13,892.2	13,158.4	12,406.7	12,028.5
Growth (%)	33.5	51.3	-15.7	-5.3	-5.7	-3.0
Current liability turnover (X)	1.6	1.5	1.4	1.7	1.9	2.1
Long-term debt	1.6	3.3	301.4	771.7	798.7	826.6
Long-term borrowings	1.6	3.3	3.5	231.5	239.6	248.0
Debentures	0.0	0.0	298.0	540.2	559.1	578.6
Long-term allowance	170.7	205.4	214.3	223.2	226.8	233.2
Other non-current liabilities	14.7	2,869.1	1,560.2	1,592.7	1,579.8	1,557.6
Financing lease	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	444.9	3,211.3	2,209.5	2,721.1	2,738.9	2,751.0
Growth (%)	-14.7	621.7	-31.2	23.2	0.7	0.4
Non-current asset turnover (x)	32.1	10.9	8.0	9.5	8.9	9.3
Total liabilities	11,332.6	19,685.2	16,101.6	15,879.5	15,145.6	14,779.5
Growth (%)	30.6	73.7	-18.2	-1.4	-4.6	-2.4
Total liability turnover (X)	1.6	1.3	1.2	1.5	1.6	1.7
Paid-in Capital	380.0	380.0	380.0	380.0	380.0	380.0
Capital surplus	2,771.4	2,818.6	2,818.6	2,818.6	2,818.6	2,818.6
Exceed in paid-in capital	843.3	843.3	843.3	843.3	843.3	843.3
Assets revaluation surplus	1,862.7	1,862.7	1,862.7	1,862.7	1,862.7	1,862.7
Capital adjustments	-696.7	-1,762.0	-1,762.0	-1,762.0	-1,762.0	-1,762.0
Treasury stock	-696.7	-1,529.4	-1,529.4	-1,529.4	-1,529.4	-1,529.4
Other Accumulated Earnings and Comprehensive Income	169.8	-498.5	-317.5	-317.5	-317.5	-317.5
Retained earnings	2,867.1	4,657.1	6,311.5	8,836.4	11,606.7	14,449.1
Total equity	5,491.5	5,595.2	7,430.6	9,955.5	12,725.8	15,568.2
Growth (%)	27.1	1.9	32.8	34.0	27.8	22.3
Shareholder's equity turnover (X)	3.2	3.6	3.3	2.7	2.1	1.8
Capital employed	5,936.5	8,806.5	9,640.1	12,676.6	15,464.6	18,319.2

CASH FLOW

(Wbn)	2007/12A	2008/12A	2009/12E	2010/12F	2011/12F	2012/12F
Operating cash flow	4,116.0	2,382.7	951.4	1,847.0	2,317.4	2,119.6
Net profit	1,736.1	2,256.7	1,954.1	2,824.5	3,069.9	3,142.1
Non cash cost (-income)	-81.4	1,361.1	-552.4	-613.2	-599.4	-747.4
+ Depr.	351.7	347.3	405.0	412.1	420.0	429.9
+ Amor.	40.2	43.5	42.1	35.3	29.7	24.9
+ Provision for severance	198.8	230.2	6.0	6.0	2.4	4.3
+ Associates' loss (-profits)	-482.5	-619.9	-527.6	-538.1	-548.9	-559.9
+ Loss on FC Translation (-profits)	-2.9	-19.8	172.9	157.6	77.2	0.0
+ Loss (-gain) on Non-current asset disp	19.5	-14.8	0.0	0.0	0.0	0.0
Gross cash flow	1,654.7	3,617.7	1,401.6	2,211.3	2,470.5	2,394.7
- Incr (+dec) in working capital	2,461.3	-1,235.0	-450.3	-364.4	-153.1	-275.2
- Inc (+dec) in acct receivable	-256.3	-1,724.0	-391.1	-407.2	-171.2	-307.5
- Inc (+dec) in inventory	9.6	-1,144.1	237.6	-168.7	-70.9	-127.4
+ Inc (-dec) in acct payable	312.6	854.6	203.2	211.6	88.9	159.8
+/- Other working capital	2,395.5	778.4	-500.0	0.0	0.0	0.0
Investing cash flow	-1,556.0	-1,661.5	-2,505.9	-1,803.9	-1,680.3	-1,396.3
+ Disp (-inc) of ST securities	0.0	0.0	102.5	0.0	0.0	0.0
+ Disp (-inc) of other quick assets	0.0	0.0	201.1	-133.6	-108.0	-194.0
+ Disp (-inc) of investment assets	-356.1	-271.0	-355.3	0.0	0.0	0.0
+ Disp of tangible assets	18.9	83.4	0.0	0.0	0.0	0.0
- CAPEX	-910.9	-1,791.4	-1,114.1	-1,170.4	-1,172.3	-1,202.3
+ Disp (-inc) of intangible assets	-54.8	-69.7	0.0	0.0	0.0	0.0
Free cash flow	3,205.2	591.3	-162.8	676.6	1,145.0	917.3
Net cash flow	2,560.0	721.3	-1,554.5	43.0	637.1	723.3
Financing cash flow	-506.2	-1,485.3	-1.5	170.6	-272.7	-271.7
+ Inc (-dec) in ST Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
+ Inc (-dec) in CPLTD	0.0	-187.6	0.0	0.0	0.0	0.0
+ Inc (-dec) in Debentures	0.0	0.0	298.0	242.2	18.9	19.6
+ Inc (-dec) in LT Borrowings	0.3	1.7	0.2	228.0	8.1	8.4
+ Inc (-dec) in Paid-in Capital and Capital Surplus	-344.9	-832.7	0.0	0.0	0.0	0.0
- Dividends	-161.2	-466.6	-299.7	-299.7	-299.7	-299.7
Increase in cash & st. financial goods	2,053.8	-764.0	-1,556.0	213.6	364.4	451.6
Cash & St. Financial Goods at the Beginning	1,054.1	3,107.9	2,343.9	787.8	1,001.5	1,365.8
Cash & St. Financial Goods at the End	3,107.9	2,343.9	787.8	1,001.5	1,365.8	1,817.4

VALUATION (I)

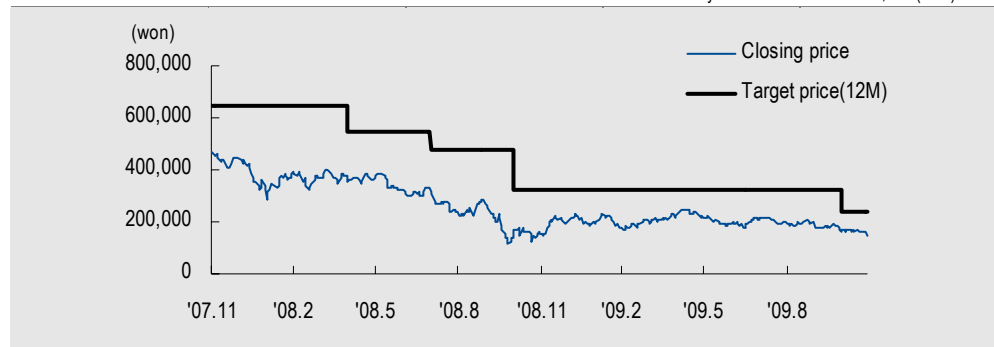
(Wbn)	2007/12A	2008/12A	2009/12E	2010/12F	2011/12F	2012/12F
Residual income model						
Spread (FROE-COE) (%)	22.9	28.1	18.8	21.3	15.9	11.0
Residual Income	1,123.8	1,560.4	1,224.6	1,850.9	1,799.8	1,557.7
12M Rim-based target Price (Won)	243,527.6					
Equity yield-cost spread (%)						
Recurring ROE	39.5	44.7	35.4	30.9	23.4	18.6
Recurring ROE – COE	27.0	32.2	24.2	19.1	11.4	6.6
Equity yield – COE	-7.3	2.3	5.9	12.9	14.8	15.5
Economic value added						
Invested capital	-374.5	2,263.7	3,095.6	4,686.1	5,879.8	7,039.7
Operating non-current assets	4,934.1	8,463.9	6,864.2	7,011.4	7,103.5	7,256.2
Net working capital	-5,308.7	-6,200.2	-3,768.6	-2,325.3	-1,223.6	-216.5
NOPAT	1,269.4	1,687.9	1,646.1	2,051.7	2,017.2	1,965.5
EBIT	1,750.7	2,206.2	2,171.6	2,630.4	2,586.2	2,519.9
(Taxes)	481.3	518.3	525.5	578.7	569.0	554.4
ROIC (%)	187.5	178.7	61.4	52.7	38.2	30.4
ROIC – WACC (%)	179.1	169.8	53.7	44.2	29.6	21.8
EVA	-670.7	3,844.6	1,663.2	2,071.5	1,738.0	1,534.8
Discounted cash flow						
EBIT	1,750.7	2,206.2	2,171.6	2,630.4	2,586.2	2,519.9
+ Depr & Amort	391.9	390.8	447.1	447.4	449.7	454.8
- Taxes	481.3	518.3	525.5	578.7	569.0	554.4
- CAPEX	910.9	1,791.4	1,114.1	1,170.4	1,172.3	1,202.3
- Inc (+ dec) in working capital	-2,312.9	-891.5	2,431.6	1,443.3	1,101.7	1,007.1
Free cash flow for DCF valuation	3,063.4	1,178.8	-1,452.6	-114.5	192.9	210.9
Weighted average cost of capital (%)						
Cost of debt (tax adjusted)	4.4	5.2	4.2	5.3	5.3	5.3
Average cost of debt*	6.1	6.7	5.6	6.7	6.7	6.7
Adjustment (tax, CB, BW, etc)	1.7	1.6	1.3	1.5	1.5	1.5
Cost of equity (COE)	12.5	12.6	11.2	11.8	12.0	12.0
Risk free rate	5.3	5.4	4.0	4.6	4.8	4.8
Equity risk premium	7.2	7.2	7.2	7.2	7.2	7.2
WACC	8.4	8.9	7.7	8.5	8.6	8.6
Change (%p)	0.5	0.4	-1.2	0.8	0.1	0.0
Enterprise value						
+ Market cap	33,630.0	15,162.0	11,438.0	11,438.0	11,438.0	11,438.0
+ Net debt (-cash)	-3,422.3	-2,443.0	-486.4	-229.8	-567.2	-990.8
Enterprise Value	30,207.7	12,719.0	10,951.6	11,208.2	10,870.8	10,447.2
- Investment asset	2,971.8	3,224.4	4,110.0	4,650.7	5,201.3	5,762.2
+ Financing lease	0.0	0.0	0.0	0.0	0.0	0.0
EV (adjusted)	27,235.9	9,494.6	6,841.6	6,557.5	5,669.5	4,685.1
EV/ EBITDA (X)	14.1	4.9	4.2	3.6	3.6	3.5
EV/ EBIT (X)	17.3	5.8	5.0	4.3	4.2	4.1
Adjusted EV/ EBITDA (X)	12.7	3.7	2.6	2.1	1.9	1.6
Adjusted EV/ EBIT (X)	15.6	4.3	3.2	2.5	2.2	1.9
EBITPS (FD) (W)	23,035.5	29,028.6	28,574.3	34,610.4	34,029.1	33,156.7
EBITDAPS (FD) (W)	28,192.6	34,170.6	34,456.7	40,497.4	39,945.8	39,141.0

VALUATION (II)

	2007/12A	2008/12A	2009/12E	2010/12F	2011/12F	2012/12F
P/E, P/cash & P/B						
Price/ Earning (FD) (X)	19.4	6.7	5.9	4.0	3.7	3.6
Fully diluted EPS (W)	22,842.9	29,693.0	25,711.6	37,165.0	40,394.0	41,343.6
Adjusted P/E (X)	24.1	8.6	6.8	4.5	4.2	4.2
Adjusted EPS (FD) (W)	18,382.1	23,091.8	22,173.9	33,259.6	35,553.2	35,597.6
Price/ gross cash flow (X)	20.3	4.2	8.2	5.2	4.6	4.8
CFPS (W)	21,772.2	47,601.8	18,442.6	29,096.6	32,506.6	31,509.6
Price/ book value (X)	6.4	2.8	1.6	1.2	0.9	0.7
BVPS (W)	69,150.8	70,170.0	94,873.6	128,560.5	165,401.8	203,130.1
P/S & P/G						
Price/ Sales (X)	2.2	0.8	0.5	0.5	0.5	0.4
Sales PS (W)	204,381.8	262,593.2	285,422.6	309,192.1	319,182.4	337,132.9
P/E/ EPS growth (X)	1.1	0.6	0.3	0.7	0.7	1.3
PER/ EBITPS growth (X)	1.3	1.2	1.2	2.2	0.7	1.3
PER/ EBITDAPS growth (X)	1.5	1.3	1.3	2.3	0.7	1.4
EPS CAGR (3-Yr, FD) (%)	17.6	10.8	17.2	6.0	5.2	2.9
EBITPS CAGR (3-Yr, FD) (%)	14.5	5.4	5.1	1.9	5.6	3.1
EBITDAPS CAGR (3-Yr, FD) (%)	12.8	5.3	4.3	1.8	5.1	2.8
Profitability & ROE breakdown						
Return on investment (%)						
Return on asset (ROA) (%)	11.6	10.7	8.0	11.4	11.4	10.8
Return on invested capital (ROIC) (%)	187.5	178.7	61.4	52.7	38.2	30.4
EBITDA/ equity (%)	39.0	46.4	35.2	30.9	23.9	19.1
EBITDA/ asset (%)	12.7	10.3	11.1	11.9	10.9	9.8
ROE breakdown						
Return on equity (ROE) (%)	35.4	40.7	30.0	32.5	27.1	22.2
NP/ Sales (%)	11.2	11.3	9.0	12.0	12.7	12.3
Sales/ Asset (X)	1.0	0.9	0.9	1.0	0.9	0.9
Asset/ Equity (Avg, %)	303.9	379.8	374.7	283.9	236.8	205.8
Stability & turnover						
LT debt ratios (%)						
Net debt (cash)/ equity (%)	-62.3	-43.7	-6.5	-2.3	-4.5	-6.4
Debt/ equity (%)	206.4	351.8	216.7	159.5	119.0	94.9
Net interest exp/ sales (%)	-1.2	-1.4	-0.6	-0.3	-0.3	-0.4
Interest coverage (X)	-9.3	-8.1	-16.3	-43.8	-35.4	-22.3
Short term solvency ratios (%)						
Current ratio (%)	78.1	76.6	78.5	89.9	101.1	113.3
Quick ratio (%)	67.8	62.9	64.0	73.3	82.9	93.4
Cash ratio (%)	8.8	4.1	5.1	7.0	10.3	14.3
Asset utilization ratios (X)						
Inventory turnover (X)	13.8	11.8	10.1	11.1	10.9	11.0
Receivables turnover (X)	6.0	5.5	4.6	4.6	4.5	4.6
Net working capital turnover (X)	-3.7	-3.5	-4.4	-7.7	-13.7	-35.6
Dividend						
Dividend yield (%)	1.7	2.5	3.3	3.3	3.3	3.3
Cash dividends (Wbn)	466.6	299.7	299.7	299.7	299.7	299.7
Cash DPS (W)	7,500.0	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Price share data						
Total shares (mn)	76.0	76.0	76.0	76.0	76.0	76.0
Common shares (mn)	76.0	76.0	76.0	76.0	76.0	76.0
Preferred shares (mn)	0.0	0.0	0.0	0.0	0.0	0.0
Wgt avg shrs (C) (mn)	76.0	76.0	76.0	76.0	76.0	76.0
Wgt fully diluted shrs (C) (mn)	76.0	76.0	76.0	76.0	76.0	76.0
Par value (W)	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0

Rating and target price update

Company	Code	Date	Rating	Target Price
HHI	009540.KS	2009.10.30	Buy	W 240,000 (12M)
		2008.10.31	Buy	W320,000 (12M)
		2008.07.30	Buy	W480,000 (12M)
		2008.04.29	Buy	W550,000 (12M)
		2007.11.09	Buy	W650,000 (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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