

Hyundai Motor

005380 KS

Target (KRW): 270,000 → 300,000

Upside: 17.0%

27 Sep price (KRW): 256,500

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell

Pressing the accelerator

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- 3Q13 earnings are tracking stronger than we expected
- Heightened earnings visibility for 2014: raising target price to KRW300,000
- We see plenty of share-price catalysts ahead; reaffirm Buy

■ What's new

We have become more optimistic on HMC's earnings outlook for 2H13-2015, as we now forecast higher earnings contributions than before from the new models in its pipeline.

■ What's the impact

HMC is scheduled to report its 3Q13 results on 24 October. We are raising our forecasts to factor in the considerations below.

1) We raise our 3Q13 global shipment forecast (excluding China) by 3.3% to 877,000 units (+13% YoY), on stronger-than-previously expected shipments from HMC's domestic factory for September due to overtime production, and higher-than-previously expected production QoQ from its Brazil plant. 2) The average USD:KRW exchange rate has appreciated by 1.9% YoY to 1,111 quarter-to-date in 3Q13 (from an average rate of 1,133 in 3Q12). 3) We expect a significant decline in the ratio of warranty-provisioning costs to revenue of 0.8pp YoY and 0.6pp QoQ to 0.8% for 3Q13, given USD-denominated warranty provisions on its balance sheet of about KRW3.5tn

(56% of its 1H13-end warranty provision of KRW6.27tn), and the 3Q13 quarter-to-date USD:KRW rate having appreciated by 6% to 1,075 (vs. a 2Q13 quarter-end rate of 1,142).

Thus, for 3Q13 we now forecast revenue of KRW22tn (raised by 2.9%), operating profit of KRW2.23tn (raised by 7%), and a 10.1% operating margin (vs. 9.7% before). These compare with the Bloomberg-consensus forecasts for revenue of KRW21.4tn and operating profit of KRW2.1tn.

We expect HMC's upward earnings revision cycle to accelerate from 2014. 1) We forecast a higher earnings contribution from its new model cycle (the redesigned Genesis in 4Q13, redesigned Sonata in 1Q14, redesigned Tucson in 1H15 and redesigned Elantra in 2H15). 2) We project a further increase in HMC's equity-method income from Beijing Hyundai Motor Company, on its planned increase in production capacity to 1.1m units in 2014, from 900,000 units in 2013.

Taking into account the above factors, we raise our EPS for 2013E/2014E/2015E by 8.0%/11.7%/9.3%.

■ What we recommend

Factoring in our earnings-forecast increases, we raise our DCF/PER-based six-month target-price for HMC to KRW300,000 (from KRW270,000), and reaffirm our Buy (1) rating. Despite its recent share-price rebound, the stock's valuation still looks appealing, at a 2013E PER of 7.3x, vs. its past-five-year range of 5.6-15.0x. As can be seen on pg. 2, HMC's share price rose by 29% and 19% in the six months after the company launched its previous Genesis (8 January 2008) and Sonata (17 September 2009). As we are more positive on both the design and

specifications of the new-generation models, we expect further strong share-price appreciation in the next six months. Further, we believe a possible announcement of HMC building a new plant or adding more production capacity in the US before 1Q14 could be a share-price booster. Risks would be a rapid appreciation of the Won against the US Dollar or Yen.

■ How we differ

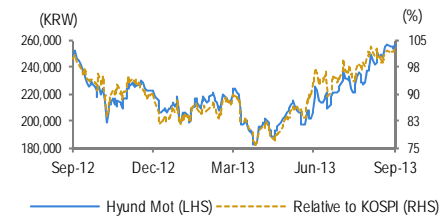
Our 2013-15E EPS are 14-17% above the consensus, as we are more bullish on HMC's shipments and equity-method income.

Forecast revisions (%)

Year to 31 Dec	13E	14E	15E
Revenue change	6.2	7.9	8.1
Net profit change	8.0	11.7	9.3
Core EPS (FD) change	8.0	11.7	9.3

Source: Daiwa forecasts

Share price performance



12-month range	183,000-256,500
Market cap (USDbn)	52.55
3m avg daily turnover (USDm)	109.08
Shares outstanding (m)	220
Major shareholder	Hyundai Mobis (20.8%)

Financial summary (KRW)

Year to 31 Dec	13E	14E	15E
Revenue (bn)	91,669	102,048	110,418
Operating profit (bn)	9,315	10,655	11,438
Net profit (bn)	10,020	11,483	12,333
Core EPS (fully-diluted)	35,099	40,224	43,203
EPS change (%)	10.6	14.6	7.4
Daiwa vs Cons. EPS (%)	13.9	16.3	16.8
PER (x)	7.3	6.4	5.9
Dividend yield (%)	0.7	0.7	0.7
DPS	1,900	1,900	1,900
PBR (x)	1.1	0.9	0.7
EV/EBITDA (x)	5.3	4.5	4.1
ROE (%)	19.8	19.4	17.5

Source: FactSet, Daiwa forecasts

■ **Automakers globally: valuation summary**

Company	Ticker	Curr.	Share Price (LC)	Daiwa Rating	Mkt cap (USDm)	Absolute (%)			Relative (%)			PER (x)		PBR (x)		EV/EBITDA (x)		P/CF (x)		ROE (%)		Div. yield (%)		OPM (%)		
						YTD	1M	3M	YTD	1M	3M	13E	14E	13E	14E	13E	14E	13E	14E	13E	14E	13E	14E	13E	14E	
US																										
FORD	F US	USD	17.3	Hold	68,038	33.4	5.2	12.9	14.3	2.7	7.0	11.2	9.7	3.1	2.5	5.1	4.6	7.8	6.9	33.9	29.2	2.3	2.4	4.5	5.3	
GM	GM US	USD	37.0	Outperform	51,144	28.2	5.8	13.5	9.1	3.3	7.6	10.9	8.2	1.7	1.5	3.1	2.6	7.0	5.9	18.4	20.6	0.0	0.0	4.6	6.0	
Europe																										
DAIMLER	DAI GR	EUR	57.6	Not rated	83,112	39.3	4.2	25.5	25.7	1.7	16.6	12.0	10.4	1.3	1.2	9.4	9.3	6.9	5.8	12.2	12.9	3.8	3.9	7.7	7.6	
BMW	BMW GR	EUR	79.7	Not rated	69,350	9.2	6.2	18.9	(4.4)	3.6	10.1	10.1	9.8	1.6	1.4	8.5	8.3	5.2	5.0	16.0	15.0	3.4	3.7	10.2	9.9	
VW	VOW GR	EUR	170.7	Not rated	107,463	4.9	(4.2)	14.8	(8.7)	(6.7)	5.9	8.1	7.0	1.0	0.9	7.3	6.6	3.7	3.4	12.4	13.0	2.4	3.2	5.9	6.8	
Japan																										
HONDA	7267 JP	JPY	3,840	Outperform	70,511	22.1	3.8	6.5	(19.5)	(3.6)	(4.3)	10.8	9.7	1.2	1.1	8.8	7.8	6.8	6.1	12.0	12.4	2.3	2.9	7.2	7.6	
NISSAN	7201 JP	JPY	1,006	Buy	46,101	24.0	(0.3)	3.6	(17.6)	(7.7)	(7.2)	8.8	7.7	1.1	1.0	6.8	6.2	4.5	4.1	12.4	12.9	3.0	3.7	6.5	7.1	
TOYOTA	7203 JP	JPY	6,440	Outperform	225,092	60.8	4.5	9.2	19.2	(2.8)	(1.6)	12.1	10.6	1.2	1.2	10.3	9.5	7.3	6.7	10.4	11.0	2.5	2.9	9.6	10.0	
China																										
SAIC	600104 CH	CHY	13.5	Not rated	24,273	(23.6)	0.8	2.7	(18.8)	(1.9)	(8.1)	6.3	5.6	1.1	0.9	6.1	5.5	6.6	7.2	16.4	16.0	4.2	4.5	5.0	5.1	
DONGFENG*	489 HK	HKD	11.8	Outperform	13,156	(1.0)	3.1	15.4	(3.4)	(3.0)	1.9	7.3	7.1	1.3	1.1	3.0	2.6	5.0	5.3	18.7	16.7	2.0	2.8	10.0	9.1	
GUANGZHOU*	2238 HK	HKD	8.4	Sell	7,941	21.7	7.9	16.0	19.3	1.8	2.4	17.7	12.9	1.4	1.2	15.7	12.4	(33.3)	(23.6)	7.7	9.8	1.6	2.3	14.2	15.9	
India																										
TATA MOTORS	TTMT IN	INR	342.6	Buy	16,193	9.6	14.9	25.7	7.4	8.0	18.7	11.1	8.0	2.9	2.2	5.5	4.3	4.3	3.7	29.8	30.9	0.6	0.6	9.0	9.7	
MAHINDRA	MM IN	INR	847.0	Hold	8,415	(9.1)	4.8	(7.0)	(11.2)	(2.1)	(14.0)	15.0	14.7	3.4	3.0	10.8	10.1	11.5	12.5	24.4	21.6	1.4	1.6	9.9	10.4	
Korea																										
HMC*	005380 KS	KRW	256,500	Buy	52,579	17.4	7.8	17.7	16.7	1.1	8.0	7.3	6.4	1.1	0.9	5.3	4.5	7.9	6.7	19.8	19.4	0.7	0.7	10.2	10.4	
KIA*	000270 KS	KRW	65,700	Outperform	24,784	16.3	3.0	7.5	15.5	(3.7)	(2.1)	6.3	5.7	1.3	1.2	4.3	3.7	5.6	5.0	23.1	22.3	1.0	1.0	7.7	8.2	
Industry average						57,877	16.9	4.5	12.2	2.9	(0.6)	2.7	10.3	8.9	1.6	1.4	7.3	6.5	3.8	4.0	17.8	17.6	2.1	2.4	8.2	8.6

Source: Bloomberg, *Daiwa forecasts

Note: 1) Share prices are as of 26 September 2013 (US and Europe as of 25 September, 2013), 2) **Relative to each country's index

■ **HMC: 3Q13E results preview**

(KRWbn)	3Q13E -Daiwa	3Q13E -BBG	Diff (%)	3Q12	YoY (%)	2Q13	QoQ (%)
USD:KRW (quarter avg.)	1,111	-	-	1,133	(1.9)	1,122	(1.0)
Revenue	21,999	21,379	2.9	19,646	12.0	23,183	(5.1)
Shipments (ex-China) ('000 units)	877	-	-	776	13.0	929	(5.6)
ASP (ex-China) ('000 KRW)	20,069	-	-	18,539	8.3	20,521	(2.2)
Gross profit	5,104	4,889	4.4	4,444	14.8	5,319	(4.0)
Gross margin (%)	23.2	22.9	-	22.6	-	22.9	-
Operating profit	2,228	2,082	7.0	1,977	12.7	2,406	(7.4)
Operating margin (%)	10.1	9.7	0.4	10.1	-	10.4	-
Net profit	2,534	2,140	18.4	2,166	17.0	2,524	0.4
Net-profit margin (%)	11.5	10.0	1.5	11.0	-	10.9	-

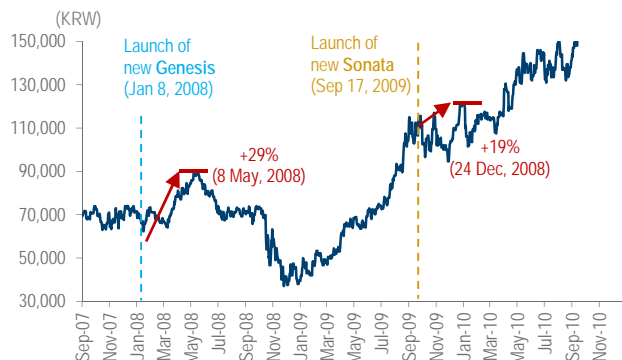
Source: Company, Bloomberg, Daiwa forecasts

■ **HMC: major changes to assumptions and forecasts**

(KRWbn)	2014E			2015E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Global shipments (ex-China, '000 units)	3,698	3,905	5.6	3,822	4,010	4.9
ASP (ex-China) ('000 KRW)	20,609	21,026	2.0	21,003	21,615	2.9
Revenue	94,559	102,048	7.9	102,128	110,418	8.1
Gross profit	22,831	24,642	7.9	24,659	26,662	8.1
Operating profit	9,624	10,655	10.7	10,580	11,438	8.1
Operating margin (%)	10.2	10.4	0.2	10.4	10.4	0.0
Equity-method income	3,142	3,814	21.4	3,365	4,124	22.6
Net profit	10,285	11,483	11.7	11,285	12,333	9.3
Net-profit margin (%)	10.9	11.3	0.4	11.1	11.2	0.1

Source: Daiwa forecasts

■ **HMC: new model launches vs. share-price movement**



Source: Dataguide, Daiwa

■ **HMC: impact of new Sonata and Genesis on operating profit (2014E)**

ASP increase	Sales-volume increase										
	Sonata					Genesis					
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%	
0%	0.0%	0.7%	1.5%	2.2%	3.0%	0.0%	0.0%	0.3%	0.5%	0.8%	0.0%
5%	0.7%	1.5%	2.2%	3.0%	3.7%	5%	0.3%	0.5%	0.8%	1.1%	0.3%
10%	1.5%	2.2%	3.0%	3.7%	4.5%	10%	0.5%	0.8%	1.1%	1.4%	0.5%
15%	2.2%	3.0%	3.7%	4.5%	5.2%	15%	0.8%	1.1%	1.4%	1.7%	0.8%
20%	3.0%	3.7%	4.5%	5.2%	6.0%	20%	1.1%	1.4%	1.7%	1.9%	1.1%

Note: * Key assumptions for 2014E base-case shipments and ASPs:

1) Sales proportions of the Genesis and Sonata remain the same as in 8M13 (1.1% and 13.0% of HMC's global shipments [ex-China], respectively); this translates into full-year 2013E shipments of 41,000 units for the Genesis and 483,000 units for the Sonata
2) ASPs: Genesis: KRW54m, Sonata: KRW25m as of September 2013

Source: Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales volume ex. China ('000 Units)	n.a.	n.a.	n.a.	3,319	3,546	3,718	3,905	4,010
Average Selling Price ex. China (KRW '000)	n.a.	n.a.	n.a.	20,225	20,108	20,185	21,026	21,615

■ Profit and loss (KRWbn)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Auto Revenues	41,155	48,975	57,293	67,128	71,307	75,048	82,103	86,683
Finance Revenues	3,274	3,843	6,520	7,288	8,663	10,975	13,979	17,648
Other Revenue	2,433	2,862	3,172	3,382	4,500	5,646	5,966	6,086
Total Revenue	46,863	55,680	66,985	77,798	84,470	91,669	102,048	110,418
Other income	0	0	0	0	0	0	0	0
COGS	(36,481)	(43,490)	(51,266)	(58,902)	(64,972)	(70,438)	(77,406)	(83,756)
SG&A	(7,225)	(7,928)	(9,143)	(10,867)	(11,061)	(12,065)	(13,987)	(15,224)
Other op. expenses	(423)	(354)	(658)	0	0	148	0	0
Operating profit	2,733	3,908	5,918	8,029	8,437	9,315	10,655	11,438
Net-interest inc./(exp.)	47	(562)	(192)	(36)	164	160	156	151
Assoc/forex/extraord./others	(1,038)	1,060	1,765	2,454	3,005	3,291	3,912	4,223
Pre-tax profit	1,742	4,406	7,492	10,447	11,605	12,766	14,722	15,812
Tax	(384)	(955)	(1,490)	(2,342)	(2,549)	(2,746)	(3,239)	(3,479)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	1,358	3,451	6,001	8,105	9,056	10,020	11,483	12,333
Net profit (adjusted)	1,358	3,451	6,001	8,105	9,056	10,020	11,483	12,333
EPS (reported)(KRW)	4,765	12,096	21,021	28,390	31,723	35,099	40,224	43,203
EPS (adjusted)(KRW)	4,765	12,096	21,021	28,390	31,723	35,099	40,224	43,203
EPS (adjusted fully-diluted)(KRW)	4,765	12,096	21,021	28,390	31,723	35,099	40,224	43,203
DPS (KRW)	850	1,150	1,500	1,750	1,900	1,900	1,900	1,900
EBIT	2,733	3,908	5,918	8,029	8,437	9,315	10,655	11,438
EBITDA	4,339	5,648	8,102	9,615	10,159	11,184	12,735	13,689

■ Cash flow (KRWbn)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before tax	1,742	4,406	7,492	10,447	11,605	12,766	14,722	15,812
Depreciation and amortisation	1,606	1,740	2,183	1,586	1,722	1,869	2,081	2,251
Tax paid	(384)	(955)	(1,490)	(2,342)	(2,549)	(2,746)	(3,239)	(3,479)
Change in working capital	1,776	1,937	17,878	3,688	6,249	2,238	3,938	4,033
Other operational CF items	(5,401)	6,468	(10,115)	(9,202)	(11,675)	(6,995)	(9,064)	(9,229)
Cash flow from operations	(660)	13,596	15,947	4,177	5,353	7,132	8,438	9,389
Capex	(4,967)	(3,763)	(2,045)	(2,899)	(3,000)	(3,090)	(3,183)	(3,278)
Net (acquisitions)/disposals	(1,256)	(2,504)	(5,102)	(4,224)	(4,048)	(2,148)	(2,908)	(3,228)
Other investing CF items	(3,373)	(536)	(9,642)	(362)	(182)	(2,772)	(2,698)	(2,698)
Cash flow from investing	(9,595)	(6,802)	(16,789)	(7,485)	(7,230)	(8,010)	(8,789)	(9,204)
Change in debt	11,830	(4,047)	2,591	3,928	2,684	1,995	(16)	668
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(404)	(277)	(588)	(458)	(523)	(419)	(419)	(419)
Other financing CF items	146	(918)	2,021	(514)	243	54	2,747	925
Cash flow from financing	11,572	(5,242)	4,023	2,956	2,404	1,631	2,313	1,175
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	1,317	1,552	3,182	(351)	527	752	1,962	1,359
Free cash flow	(5,627)	9,833	13,902	1,278	2,353	4,042	5,255	6,111

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ **Balance sheet (KRWbn)**

As at 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & short-term investment	9,389	12,301	31,859	35,429	40,120	41,057	42,997	45,176
Inventory	15,057	10,213	5,491	6,238	6,773	7,239	8,171	8,841
Accounts receivable	5,412	4,892	4,469	6,013	5,925	6,875	7,654	8,281
Other current assets	1,686	1,572	1,701	1,247	2,030	2,090	2,258	2,529
Total current assets	31,544	28,978	43,520	48,926	54,848	57,262	61,079	64,827
Fixed assets	20,202	20,260	20,236	19,548	20,740	21,961	23,063	24,090
Goodwill & intangibles	2,391	2,548	2,642	2,660	2,883	3,114	3,363	3,767
Other non-current assets	28,292	28,320	28,316	38,345	43,067	46,484	51,502	57,085
Total assets	82,429	80,106	94,714	109,480	121,538	128,820	139,006	149,768
Short-term debt	24,119	17,907	15,859	15,048	11,050	11,603	12,183	12,622
Accounts payable	9,916	9,713	9,912	10,887	11,881	12,000	12,240	12,362
Other current liabilities	1,349	2,651	5,674	7,229	9,904	9,409	8,468	7,621
Total current liabilities	35,384	30,271	31,445	33,164	32,836	33,012	32,891	32,606
Long-term debt	17,956	19,453	22,737	27,138	30,513	31,956	31,360	31,589
Other non-current liabilities	2,031	2,530	7,644	8,850	10,271	10,357	10,166	9,042
Total liabilities	55,371	52,254	61,826	69,152	73,620	75,325	74,416	73,236
Share capital	1,489	1,489	1,489	1,489	1,489	1,489	1,489	1,489
Reserves/R.E./others	25,570	26,363	31,399	38,839	46,429	52,006	63,101	75,043
Shareholders' equity	27,059	27,852	32,888	40,328	47,918	53,495	64,590	76,532
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	82,429	80,106	94,714	109,480	121,538	128,820	139,006	149,768
EV	89,187	81,560	63,238	63,258	57,944	59,003	57,046	55,535
Net debt/(cash)	32,686	25,059	6,737	6,757	1,443	2,502	546	(966)
BVPS (KRW)	123,064	126,443	149,303	183,078	217,534	242,855	293,223	347,435

■ **Key ratios (%)**

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales (YoY)	18.3	18.8	20.3	16.1	8.6	8.5	11.3	8.2
EBITDA (YoY)	18.6	30.2	43.4	18.7	5.7	10.1	13.9	7.5
Operating profit (YoY)	15.9	43.0	51.5	35.7	5.1	10.4	14.4	7.4
Net profit (YoY)	(6.8)	154.0	73.9	35.1	11.7	10.6	14.6	7.4
Core EPS (fully-diluted) (YoY)	(6.9)	153.9	73.8	35.1	11.7	10.6	14.6	7.4
Gross-profit margin	22.2	21.9	23.5	24.3	23.1	23.2	24.1	24.1
EBITDA margin	9.3	10.1	12.1	12.4	12.0	12.2	12.5	12.4
Operating-profit margin	5.8	7.0	8.8	10.3	10.0	10.2	10.4	10.4
Net profit margin	2.9	6.2	9.0	10.4	10.7	10.9	11.3	11.2
ROAE	5.4	12.6	19.8	22.1	20.5	19.8	19.4	17.5
ROAA	1.8	4.2	6.9	7.9	7.8	8.0	8.6	8.5
ROCE	4.4	5.8	8.7	10.4	9.8	10.0	10.4	10.0
ROIC	3.9	5.4	10.2	14.4	13.7	13.9	13.7	12.7
Net debt to equity	120.8	90.0	20.5	16.8	3.0	4.7	0.8	net cash
Effective tax rate	22.0	21.7	19.9	22.4	22.0	21.5	22.0	22.0
Accounts receivable (days)	37.4	33.8	25.5	24.6	25.8	25.5	26.0	26.3
Current ratio (x)	0.9	1.0	1.4	1.5	1.7	1.7	1.9	2.0
Net interest cover (x)	n.a.	7.0	30.8	223.1	n.a.	n.a.	n.a.	n.a.
Net dividend payout	17.8	9.5	7.1	6.2	6.0	5.4	4.7	4.4
Free cash flow yield	n.a.	17.4	24.6	2.3	4.2	7.2	9.3	10.8

Source: FactSet, Daiwa forecasts

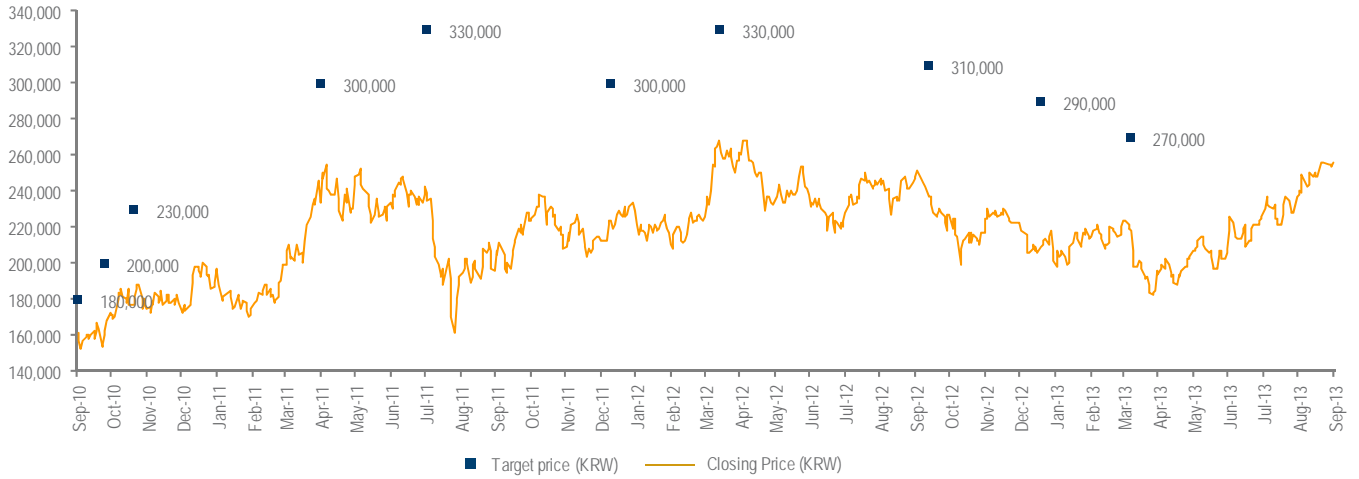
■ **Company profile**

Established in 1967, HMC is the largest vehicle manufacturer in Korea. With the 33.58%-owned Kia Motors, it has 6.4m units of production capacity globally. The company produces a range of vehicles, including passenger cars, SUVs, minivans and commercial vehicles.

Share price and Daiwa recommendation trend

■ **Hyundai Motor: share price and Daiwa recommendation trend**

Date	Target price	Rating	Date	Target price	Rating	Date	Target price	Rating
15/11/10	230,000	Outperform	05/01/12	300,000	Buy	14/01/13	290,000	Buy
27/04/11	300,000	Buy	09/04/12	330,000	Buy	02/04/13	270,000	Buy
28/07/11	330,000	Buy	08/10/12	310,000	Buy			



Source: Daiwa

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