

Hyundai Mobis
012330 KS

Target (KRW): 300,000 → 250,000

Upside: 16.3%

15 Jun price (KRW): 215,000

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

Defensive nature to come to fore

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- We continue to expect Mobis to outperform HMC and Kia
- But we lower 2015-17E EPS to factor in a lower earnings contribution from China
- Lowering TP to KRW250,000; still our top pick in the sector

■ **What's new**

We lower our 2015-17E EPS forecasts for Mobis by 15-16%, to factor in: 1) weaker prospects for its China shipments, 2) potential pricing pressure from Hyundai Motor Group (HMG), and 3) weaker equity-method income forecasts for HMC vs. our previous forecasts. Still, we believe Mobis offers better earnings visibility (2014-17E EPS CAGR of 5.4%) than HMC (2014-17E EPS CAGR of 0.3%), thanks to its more defensive and less cyclical after-service parts division.

■ **What's the impact**

Mobis' 1Q15 operating-profit contribution from China was 30.1%. Given the difficult operating environment for both HMC and Kia in China, we believe it is highly likely that Mobis' module and core parts (M&C) business will decline (we forecast a 13.4% YoY fall in HMC and Kia's combined shipments in China to 366,917 units for 2Q15). Factoring in these weaker shipments, we now look for Mobis' 2Q15 results to fall short of the

Bloomberg consensus revenue and operating-profit forecasts of KRW9.5tn and KRW783bn (2Q15 operating margin of 8.2%, vs. 7.6% for 1Q15 and 8.3% for 2Q14) by 7.7% and 14.2%, respectively, and come in at KRW8.8tn and KRW672bn (2Q15E operating margin of 7.7%).

■ **What we recommend**

Factoring in our earnings cuts, we lower our blended SOTP, PER and DCF-based 12-month target price to KRW250,000 (from KRW300,000), implying a 2015E PER target of 7.6x, vs. the stock's past-3-year PER range of 6.3-9.3x. We reiterate our Buy (1) rating. We continue to expect a change in HMG's shareholding structure over the next 12 months (via a possible swap involving Kia's stake in Mobis and HMC Vice Chairman Mr. ES Chung's stakes in Hyundai Glovis and its affiliates). As Mobis owns 21% of HMC, we believe ES Chung's new ownership of Mobis could send a positive message to the market.

Long term, we still look for product mix improvements from high-margin core parts to drive up Mobis' long-term earnings growth (1pp pa, from 35% of M&C revenue in 2014). We believe this rise could be boosted by: 1) the market share within HMG for braking, steering, lamps and Advanced Driver Assistance Systems (ADAS) products combined rising to 65% in 2018E, from 50% in 2014, 2) content per vehicle increasing for mid-sized sedans and SUVs made by HMC and Kia, 3) and the start-up of its core-parts plants in Mexico and the Czech Republic from 2016 and 2017, respectively. Furthermore, Mobis shares have outperformed both HMC (005380 KS, KRW136,500, Outperform [2]) and Kia (000270 KS, KRW46,000, Hold [3]) (see page 2) during a difficult

operating environment in the past, and we expect this trend to continue over the next 12 months, thanks to Mobis' more defensive after-service parts division. The key risks to our call: a rapid appreciation of the KRW vs. the USD and Euro, and stronger-than-expected pricing pressure from HMG OEMs.

■ **How we differ**

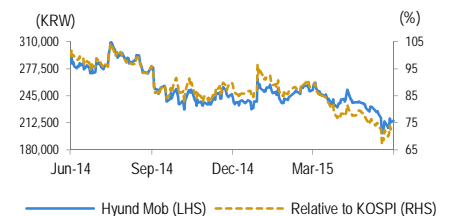
Our revised 2015-16 EPS forecasts are 5-9% lower than the Bloomberg consensus, as we are now less positive on Mobis' China earnings.

Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Revenue change	(6.0)	(8.5)	(9.8)
Net profit change	(16.1)	(15.0)	(15.7)
Core EPS (FD) change	(16.1)	(15.0)	(15.7)

Source: Daiwa forecasts

Share price performance



12-month range	200,000-309,500
Market cap (USDbn)	18.78
3m avg daily turnover (USDm)	53.70
Shares outstanding (m)	97
Major shareholder	Kia Motors (16.9%)

Financial summary (KRW)

Year to 31 Dec	15E	16E	17E
Revenue (bn)	37,169	40,059	43,908
Operating profit (bn)	3,005	3,374	3,754
Net profit (bn)	3,201	3,579	3,976
Core EPS (fully-diluted)	32,880	36,767	40,848
EPS change (%)	(5.7)	11.8	11.1
Daiwa vs Cons. EPS (%)	(8.6)	(5.3)	(0.1)
PER (x)	6.5	5.8	5.3
Dividend yield (%)	1.6	1.9	2.2
DPS	3,500	4,000	4,700
PBR (x)	0.8	0.7	0.6
EV/EBITDA (x)	3.6	3.1	2.6
ROE (%)	12.9	12.9	12.8

Source: FactSet, Daiwa forecasts

■ **Mobis: core earnings breakdown by division**

(KRWbn,%)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15E	2Q15E-BBG	Diff (%)	QoQ (%)	YoY (%)	3Q15E	4Q15E	2014	2015E
Revenue	8,918	8,928	8,496	9,842	9,067	8,783	9,517	(7.7)	(3.1)	(1.6)	8,607	10,712	36,185	37,169
Module and Core-parts	7,114	7,095	6,712	7,943	7,215	6,854			(5.0)	(3.4)	6,644	8,738	28,864	29,450
A/S Parts	1,575	1,583	1,531	1,574	1,533	1,630			6.4	3.0	1,684	1,772	6,263	6,619
Finance	229	251	254	325	320	300					278	202	1,058	1,100
% of revenue														
Module and Core-parts	79.8%	79.5%	79.0%	80.7%	79.6%	78.0%					77.2%	81.6%	79.8%	79.2%
A/S Parts	17.7%	17.7%	18.0%	16.0%	16.9%	18.6%					19.6%	16.5%	17.3%	17.8%
Finance	2.6%	2.8%	3.0%	3.3%	3.5%	3.4%					3.2%	1.9%	2.9%	3.0%
Operating profit	721	745	723	881	690	672	783	(14.2)	(2.6)	(9.9)	696	948	3,071	3,005
Module and Core-parts	420	439	421	548	412	350			(15.1)	(20.4)	346	568	1,829	1,675
A/S Parts	330	322	310	351	291	334			14.9	3.8	367	390	1,313	1,382
Finance	(29)	(16)	(8)	(18)	(13)	(12)					(17)	(10)	(71)	(52)
% of operating-profit														
Module and Core-parts	58.3%	58.9%	58.2%	62.2%	59.7%	52.0%					49.6%	59.9%	59.6%	55.7%
A/S Parts	45.7%	43.2%	42.8%	39.9%	42.2%	49.8%					52.7%	41.1%	42.7%	46.0%
Finance	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.					n.m.	n.m.	n.m.	n.m.
Operating profit margin	8.1%	8.3%	8.5%	8.9%	7.6%	7.7%	8.2%				8.1%	8.8%	8.5%	8.1%
Module and Core-parts	5.9%	6.2%	6.3%	6.9%	5.7%	5.1%					5.2%	6.5%	6.3%	5.7%
A/S Parts	20.9%	20.4%	20.2%	22.3%	19.0%	20.5%					21.8%	22.0%	21.0%	20.9%
Finance	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.					n.m.	n.m.	n.m.	n.m.

Source: Bloomberg, Daiwa forecasts

■ **Mobis: major assumption changes**

(KRWbn)	2015E			2016E			2017E		
	Prev.	Revised	Chg (%)	Prev.	Revised	Chg (%)	Prev.	Revised	Chg (%)
Revenue	39,533	37,169	(6.0)	43,786	40,059	(8.5)	48,660	43,908	(9.8)
M&C	31,693	29,450	(7.1)	34,862	31,512	(9.6)	38,697	34,663	(10.4)
A/S Parts	6,734	6,619	(1.7)	7,506	7,148	(4.8)	8,332	7,649	(8.2)
Finance	1,106	1,100	(0.5)	1,418	1,399	(1.3)	1,632	1,597	(2.2)
Operating profit	3,411	3,005	(11.9)	3,873	3,374	(12.9)	4,446	3,754	(15.6)
OPM (%)	8.6	8.1		8.8	8.4		9.1	8.5	
M&C	2,028	1,675	(17.4)	2,266	1,931	(14.8)	2,631	2,184	(17.0)
OPM (%)	6.4	5.7		6.5	6.1		6.8	6.3	
A/S Parts	1,407	1,382	(1.8)	1,629	1,508	(7.4)	1,841	1,633	(11.3)
OPM (%)	20.9	20.9		21.7	21.1		22.1	21.3	
Finance	(25)	(52)	n.m.	(22)	(66)	n.m.	(27)	(63)	n.m.
OPM (%)	n.m.	n.m.		n.m.	n.m.		n.m.	n.m.	
Recurring Profit	5,063	4,273	(15.6)	5,399	4,742	(12.2)	6,045	5,265	(12.9)
RPM (%)	12.8	11.5		12.3	11.8		12.4	12.0	
Tax	1,246	1,072	(14.0)	1,188	1,163	(2.1)	1,330	1,288	(3.1)
Tax rate (%)	24.6	25.1		22.0	24.5		22.0	24.5	
Net profit	3,817	3,201	(16.1)	4,211	3,579	(15.0)	4,715	3,976	(15.7)
NPM (%)	9.7	8.6		9.6	8.9		9.7	9.1	

Source: Bloomberg, Daiwa forecasts. Note: M&C=Module and core-parts, A/S Parts=After-service parts

■ **ES Chung's stakes in HMG affiliates**

(KRWbn)	Market Cap	ES Chung's stake	Value	
Kia	18,586	1.7%	316	
Glovis	8,588	23.3%	2,001	
Wia	3,263	2.0%	65	
Engineering*	9,608	11.7%	1,126	
Innocean*	1,000	10.0%	100	
ES Chung - total			3,608	
Tax levied at 20%			722	
ES Chung - total (after tax)			2,887	
	Market Cap	Kia's stake	HS' stake	Value
Mobis	20,734	16.9%	5.7%	4,673
(ES Chung's stake in affiliates) - (Kia and HS's combined stakes in Mobis)				(1,787)

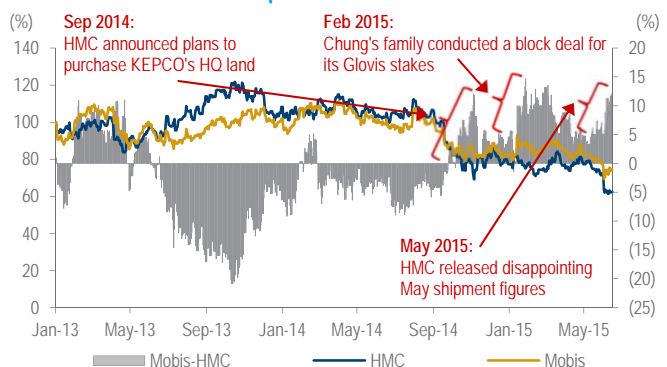
Source: Bloomberg, Daiwa. Note: 1)*We expect IPOs for Hyundai Engineering and Innocean in 2015. 2) Market capitalisations are as of 12 June 2015

■ **Mobis: assumption changes on module and core-parts business and earnings from China operations**

(KRWbn, '000 units)	2Q15			2Q14	YoY(%)	1Q15	QoQ(%)
	New	Prev.	Chg (%)				
Revenue: Total	8,783	9,953	(11.8)	8,928	(1.6)	9,067	(3.1)
Revenue: M&C	6,854	7,943	(13.7)	7,095	(3.4)	7,215	(5.0)
% of total	78.0	79.8	3.2%	79.5		79.6	
Revenue: China	1,928	2,808	(31.3)	2,479	(22.2)	2,726	(29.3)
**Content ratio	33.0	41.1		33.6		37.0	(10.8)
HMG's China revenue	5,842	6,832	(14.5)	7,387	(20.9)	7,370	(20.7)
HMC	3,841	4,493	(14.5)	5,083	(24.4)	4,823	(20.4)
Kia	2,000	2,340	(14.5)	2,304	(13.2)	2,547	(21.4)
*HMG China's factory shipments	367	408	(10.0)	424	(13.4)	440	(16.6)
*HMC	235	261	(10.0)	269	(12.7)	280	(16.2)
*Kia	132	147	(10.0)	155	(14.5)	160	(17.3)
HMG China's ASP (KRWm/car)	15.9	16.8	(5.0)	17.4	(8.7)	16.8	(5.0)
HMC	16.4	17.2	(5.0)	18.9	(13.4)	17.2	(5.0)
Kia	15.1	15.9	(5.0)	14.9	1.6	15.9	(5.0)
Operating profit: Total	672	845	(20.5)	745	(9.9)	690	(2.6)
Operating-profit margin (%)	7.7	8.5		8.3		7.6	
Operating profit: M&C	350	500	(30.1)	439	(20.4)	412	(15.1)
Operating-profit margin (%)	5.1	6.3		6.2		5.7	
Operating profit: China	135	197	(31.3)	146	(7.7)	208	(35.1)
Operating-profit margin (%)	7.0	7.0		5.9		7.6	(8.2)
% of total	20.1			19.6		30.1	
% of M&C	38.6			33.3		50.5	

Source: Company, Daiwa forecasts. Note: 1)*China's 2Q15 YTD Factory shipments for HMC and Kia are 170,000 and 105,000 units, respectively. 2)**% of HMG's China revenue

■ **Mobis and HMC: share performance**



Source: Dataguide, Daiwa

Financial summary

■ Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
A/S parts' revenue growth (YoY %)	n.a.	13.2	9.2	5.6	0.7	5.7	8.0	7.0
Module's revenue growth (YoY %)	n.a.	20.3	15.1	12.3	6.8	2.0	7.0	10.0
A/S parts' operating profit margin (%)	24.8	22.7	22.6	21.1	21.0	20.9	21.1	21.3
Module's operating profit margin (%)	7.6	6.9	6.8	6.3	6.3	5.7	6.1	6.3

■ Profit and loss (KRWbn)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Module and Core-parts Revenues	17,380	20,903	24,060	27,022	28,864	29,450	31,512	34,663
A/S Parts Revenues	4,764	5,391	5,889	6,220	6,263	6,619	7,148	7,649
Other Revenue	1	(0)	840	956	1,058	1,100	1,399	1,597
Total Revenue	22,144	26,295	30,789	34,199	36,185	37,169	40,059	43,908
Other income	903	882	1,018	1,139	1,211	1,233	1,322	1,449
COGS	(17,910)	(22,257)	(26,245)	(29,386)	(31,005)	(31,867)	(34,267)	(37,498)
SG&A	(1,903)	(1,400)	(1,638)	(1,889)	(2,109)	(2,297)	(2,419)	(2,657)
Other op.expenses	(903)	(882)	(1,018)	(1,139)	(1,211)	(1,233)	(1,322)	(1,449)
Operating profit	2,331	2,637	2,906	2,924	3,071	3,005	3,374	3,754
Net-interest inc./ (exp.)	(3)	23	69	119	163	133	91	101
Assoc/forex/extraord./others	924	1,402	1,632	1,491	1,350	1,135	1,276	1,411
Pre-tax profit	3,252	4,063	4,607	4,535	4,584	4,273	4,742	5,265
Tax	(746)	(1,036)	(1,065)	(1,138)	(1,191)	(1,072)	(1,163)	(1,288)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	2,506	3,027	3,542	3,396	3,393	3,201	3,579	3,976
Net profit (adjusted)	2,506	3,027	3,542	3,396	3,393	3,201	3,579	3,976
EPS (reported)(KRW)	25,743	31,094	36,387	34,891	34,851	32,880	36,767	40,848
EPS (adjusted)(KRW)	25,743	31,094	36,387	34,891	34,851	32,880	36,767	40,848
EPS (adjusted fully-diluted)(KRW)	25,743	31,094	36,387	34,891	34,851	32,880	36,767	40,848
DPS (KRW)	1,500	1,750	1,900	1,950	3,000	3,500	4,000	4,700
EBIT	2,331	2,637	2,906	2,924	3,071	3,005	3,374	3,754
EBITDA	3,234	3,519	3,924	4,064	4,282	4,238	4,696	5,203

■ Cash flow (KRWbn)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit before tax	3,252	4,063	4,607	4,535	4,584	4,273	4,742	5,265
Depreciation and amortisation	903	882	1,018	1,139	1,211	1,233	1,322	1,449
Tax paid	(746)	(1,036)	(1,065)	(1,138)	(1,191)	(1,072)	(1,163)	(1,288)
Change in working capital	(1,937)	(388)	(3,712)	(1,490)	(1,425)	(1,397)	(2,047)	(2,389)
Other operational CF items	826	(1,361)	2,233	(1,118)	(367)	(389)	(388)	(388)
Cash flow from operations	2,297	2,159	3,081	1,928	2,812	2,647	2,465	2,649
Capex	(414)	(716)	(858)	(652)	(1,070)	(4,278)	(1,711)	(1,882)
Net (acquisitions)/disposals	(237)	(2,135)	(1,339)	(1,800)	(1,082)	(943)	(907)	(987)
Other investing CF items	(21)	(1)	215	(1)	(0)	(10)	(10)	(10)
Cash flow from investing	(673)	(2,852)	(1,982)	(2,453)	(2,152)	(5,231)	(2,628)	(2,880)
Change in debt	(144)	423	(160)	392	(69)	126	133	139
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(121)	(145)	(170)	(185)	(190)	(341)	(389)	(458)
Other financing CF items	0	0	35	0	36	1,576	551	724
Cash flow from financing	(264)	279	(295)	208	(222)	1,362	294	406
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	1,360	(414)	804	(317)	438	(1,223)	131	175
Free cash flow	1,883	1,443	2,223	1,276	1,743	(1,631)	754	766

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (KRWbn)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & short-term investment	2,712	3,328	6,597	7,385	8,964	8,467	9,276	10,197
Inventory	1,568	1,837	1,968	2,314	2,391	2,989	3,437	3,952
Accounts receivable	3,951	4,749	5,195	5,628	6,117	7,646	8,793	10,112
Other current assets	102	149	183	245	250	300	360	432
Total current assets	8,332	10,064	13,943	15,572	17,722	19,402	21,866	24,693
Fixed assets	2,646	3,319	3,714	3,887	4,435	8,378	9,730	11,233
Goodwill & intangibles	692	861	1,047	979	967	1,016	1,066	1,120
Other non-current assets	5,581	8,332	11,343	13,992	15,988	15,085	15,397	15,720
Total assets	17,251	22,576	30,047	34,430	39,112	43,881	48,060	52,766
Short-term debt	1,613	2,336	1,759	1,565	1,401	1,471	1,545	1,622
Accounts payable	3,389	3,952	4,440	4,738	5,262	5,405	5,675	5,959
Other current liabilities	681	739	996	1,031	1,395	1,464	1,538	1,615
Total current liabilities	5,683	7,027	7,195	7,334	8,058	8,341	8,758	9,196
Long-term debt	519	328	726	1,200	1,126	1,182	1,241	1,303
Other non-current liabilities	862	1,427	5,087	5,703	6,642	8,201	8,704	9,381
Total liabilities	7,063	8,781	13,007	14,237	15,826	17,724	18,703	19,880
Share capital	491	491	491	491	491	491	491	491
Reserves/R.E./others	9,697	13,303	16,549	19,702	22,795	25,666	28,866	32,395
Shareholders' equity	10,188	13,795	17,040	20,193	23,286	26,157	29,357	32,886
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	17,251	22,576	30,047	34,430	39,112	43,881	48,060	52,766
EV	20,349	20,264	16,817	16,309	14,492	15,115	14,439	13,657
Net debt/(cash)	(580)	(665)	(4,112)	(4,620)	(6,437)	(5,814)	(6,490)	(7,271)
BVPS (KRW)	104,661	141,710	175,047	207,442	239,215	268,704	304,708	341,336

■ Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Sales (YoY)	28.5	18.7	17.1	11.1	5.8	2.7	7.8	9.6
EBITDA (YoY)	34.5	8.8	11.5	3.6	5.4	(1.0)	10.8	10.8
Operating profit (YoY)	37.6	13.1	10.2	0.6	5.0	(2.1)	12.3	11.2
Net profit (YoY)	59.2	20.8	17.0	(4.1)	(0.1)	(5.7)	11.8	11.1
Core EPS (fully-diluted) (YoY)	51.3	20.8	17.0	(4.1)	(0.1)	(5.7)	11.8	11.1
Gross-profit margin	19.1	15.4	14.8	14.1	14.3	14.3	14.5	14.6
EBITDA margin	14.6	13.4	12.7	11.9	11.8	11.4	11.7	11.8
Operating-profit margin	10.5	10.0	9.4	8.6	8.5	8.1	8.4	8.5
Net profit margin	11.3	11.5	11.5	9.9	9.4	8.6	8.9	9.1
ROAE	27.9	25.2	23.0	18.2	15.6	12.9	12.9	12.8
ROAA	15.9	15.2	13.5	10.5	9.2	7.7	7.8	7.9
ROCE	20.9	18.3	16.2	13.8	12.6	11.0	11.1	11.0
ROIC	19.4	17.3	17.1	15.4	14.0	12.1	11.8	11.7
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	22.9	25.5	23.1	25.1	26.0	25.1	24.5	24.5
Accounts receivable (days)	62.5	60.4	58.9	57.8	59.2	67.6	74.9	78.6
Current ratio (x)	1.5	1.4	1.9	2.1	2.2	2.3	2.5	2.7
Net interest cover (x)	815.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	5.8	5.6	5.2	5.6	8.6	10.6	10.9	11.5
Free cash flow yield	9.0	6.9	10.6	6.1	8.3	n.a.	3.6	3.7

Source: FactSet, Daiwa forecasts

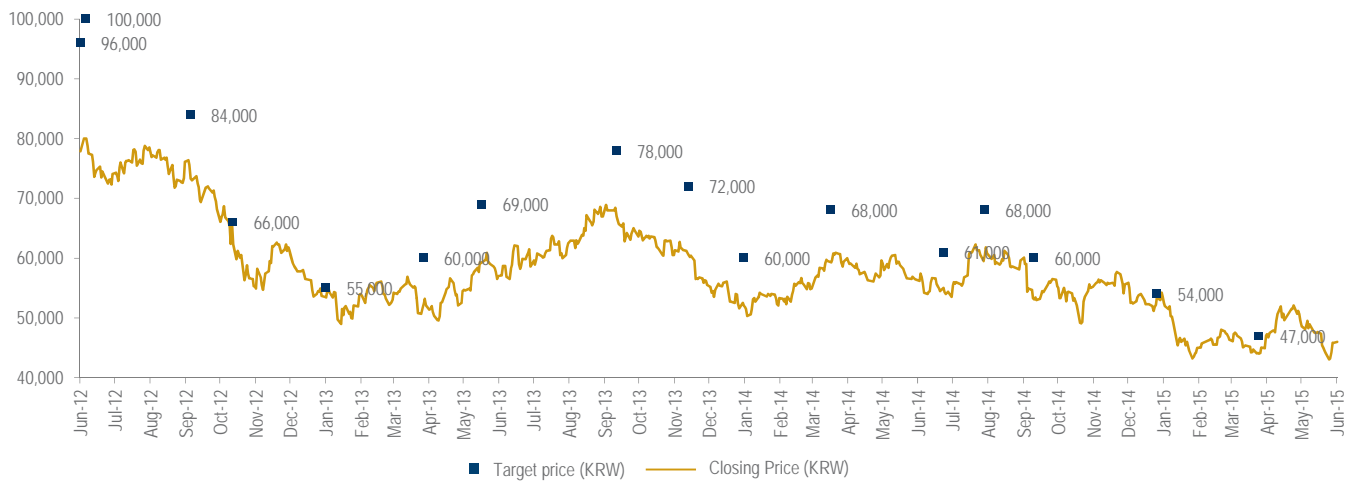
■ Company profile

Mobis is the sole distributor of Hyundai/Kia's after-sales parts globally and the largest auto-parts company in Korea. It has two major business divisions: 1) module-assembly and key auto-components manufacturing (ABS, airbags, etc.), which accounts for 60% of revenue, and 2) after-sales parts, which accounts for 40%.

Share price and Daiwa recommendation trend

■ **Kia Motors: share price and Daiwa recommendation trend**

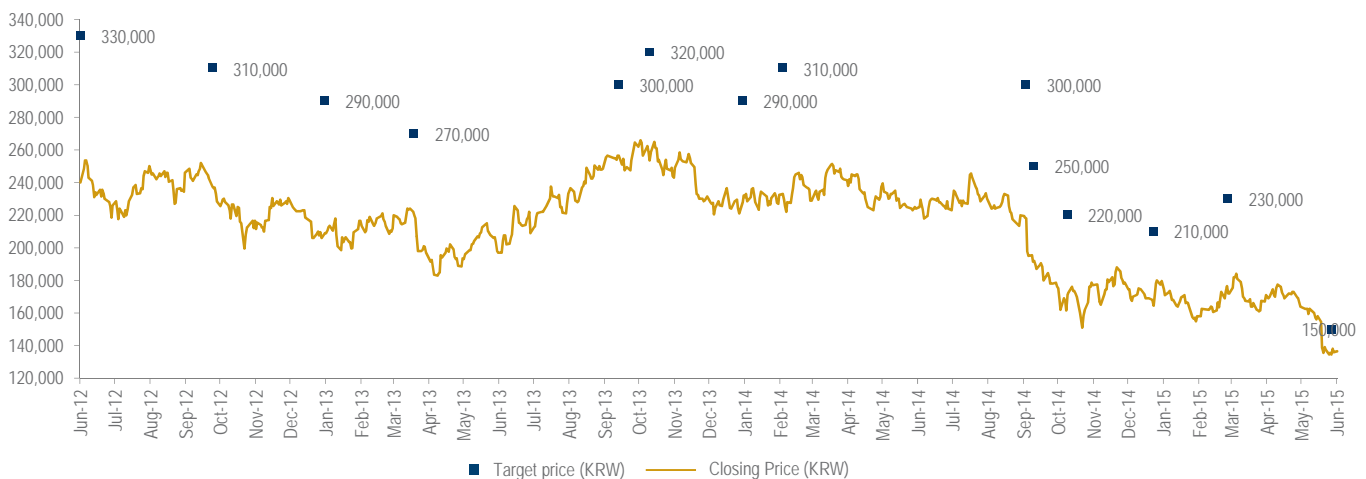
Date	Target price	Rating	Date	Target price	Rating	Date	Target price	Rating
19/09/12	84,000	Outperform	25/09/13	78,000	Outperform	12/08/14	68,000	Outperform
26/10/12	66,000	Hold	27/11/13	72,000	Outperform	24/09/14	60,000	Outperform
15/01/13	55,000	Hold	14/01/14	60,000	Outperform	09/01/15	54,000	Hold
10/04/13	60,000	Outperform	31/03/14	68,000	Outperform	08/04/15	47,000	Hold
31/05/13	69,000	Outperform	07/07/14	61,000	Outperform			



Source: Daiwa

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

Date	Target price	Rating	Date	Target price	Rating	Date	Target price	Rating
14/01/13	290,000	Buy	13/01/14	290,000	Buy	23/10/14	220,000	Buy
02/04/13	270,000	Buy	17/02/14	310,000	Buy	06/01/15	210,000	Buy
27/09/13	300,000	Buy	17/09/14	300,000	Buy	12/03/15	230,000	Buy
24/10/13	320,000	Buy	24/09/14	250,000	Buy	10/06/15	150,000	Outperform



Source: Daiwa

■ Hyundai Mobis: share price and Daiwa recommendation trend

Date	Target price	Rating	Date	Target price	Rating	Date	Target price	Rating
27/08/12	310,000	Hold	28/06/13	270,000	Hold	24/09/14	280,000	Outperform
27/10/12	290,000	Hold	29/10/13	290,000	Hold	11/12/14	320,000	Buy
01/02/13	340,000	Buy	19/03/14	280,000	Hold	17/03/15	310,000	Buy
26/04/13	290,000	Outperform	10/06/14	320,000	Outperform	10/04/15	300,000	Buy



Source: Daiwa

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