

An autonomous rerating driver

- Active-safety products are finding their way into mass-market vehicles and the next wave of safety features is on the horizon
- We believe advanced driver assistance system (ADAS) products will be a structural growth story in the coming years
- We upgrade Hyundai Mobis to Outperform (2) and see it being the major beneficiary in Korea

Korea Auto Sector

- Positive (unchanged)
- Neutral
- Negative

How do we justify our view?



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Sung Yop Chung

(82) 2 787 9157
sychung@kr.daiwacm.com

■ What's new

We expect automakers to step up their adoption of active-safety products such as ABS (anti-lock braking system) and EPS (electronic power steering) in the coming years in order to comply with increasingly stringent safety standards globally. And, in stage 3 of our roadmap for auto safety products (2015-2020), which should ultimately lead to the emergence of autonomous vehicles, we forecast the content-per-vehicle for ADAS to increase strongly.

■ What's the impact

We forecast the ADAS market to see a 21% CAGR in value through to 2020, spurred by the following factors: 1) tougher safety requirements, 2) automakers adopting ADAS as a way to differentiate their vehicles, and 3) the promise of lower insurance costs for vehicles using such systems.

We believe the rise of ADAS is a potential earnings-growth driver for auto-parts suppliers with a competitive edge in the technology. Unlike for mechanical parts suppliers, for which the manufacturing process is determined by automakers, ADAS relies upon automotive electronics.

In our view, the resulting need for cooperation could give auto-parts suppliers the upper hand in pricing and hence turn the segment into a seller's market for certain suppliers globally.

Tier-I parts suppliers of safety products, such as Autoliv (ALV US, USD107.4, Outperform [2]), Continental (CONG GY, EUR175.6, not rated) and Bosch (not listed) already enjoy higher average operating-profit margins than automakers (8.5% vs. 6.5% for 2014, on both our and the Bloomberg consensus forecasts). We expect the tier-I parts players to continue to command a valuation premium, supported by their better earnings growth prospects for 2014-20.

Among the Korea auto-parts suppliers under our coverage, we highlight Hyundai Mobis (Mobis) (012330KS, KRW284,000) as the main potential beneficiary of the rise of ADAS. Mobis is the seventh-largest auto-parts supplier globally and the in-house parts supplier for Hyundai Motor Group (HMG). Mobis supplies 50% of the ABS and EPS systems used by HMG, and recently started supplying ADAS products such as adaptive cruise control (ACC) for use in HMG's high-end cars.

Meanwhile, Mando Corp (Mando) (060980KS, KRW119,000) focuses mainly on brakes and steering systems but is less dependent on HMG (55% of revenue vs. 90% for Mobis). We note that SL (005850

KS, KRW21,250, not rated), which is Korea's largest lamp maker, expects to derive 3% of its 2015 revenue from ADAS products.

■ What we recommend

After factoring in upward revisions to our forecasts of Mobis' 2014-16E EPS and the NOPLAT assumption used in our DCF valuation, we raise our 6-month target price (based on our PER, DCF and blended SOTP) for Mobis by 14% to KRW320,000, and upgrade our rating on the stock to Outperform (2), from Hold (3).

We reaffirm our Outperform (2) rating on Mando, which we believe offers good earnings visibility for 2014. However, the stock is likely to be range-bound in the run-up to a special shareholders meeting (28 July) to discuss its spin-off. The main risk to our Positive sector view would be stronger-than-expected pricing pressure from OEMs.

■ How we differ

Reflecting our positive stance on active-safety and ADAS products, our 2014-15 EPS forecasts for Mobis and Mando are 6-18% higher than the Bloomberg-consensus forecasts.

Key stock calls

	New	Prev.
Hyundai Mobis (012330 KS)		
Rating	Outperform	Hold
Target	320,000	280,000
Upside	▲ 12.7%	
Mando Corp (060980 KS)		
Rating	Outperform	Outperform
Target	135,000	135,000
Upside	▲ 13.4%	

Source: Daiwa forecasts.

- Positive (unchanged)
- Neutral
- Negative

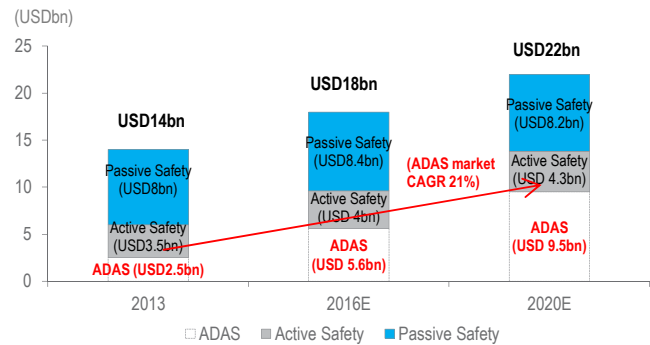
How do we justify our view?

- Growth outlook ✓✓✓✓✓
- Valuation ✓✓✓✓✓
- Earnings revisions ✓✓✓✓✓

■ Growth outlook ✓✓✓✓✓

As the penetration rate for passive-safety products such as airbags and seat belts in developed markets is already high, manufacturers' and consumers' attentions are turning to active safety products such as ABS and EPS. We see ADAS being next on the horizon. On our forecasts, the global market for ADAS will expand to USD9.5bn by 2020, from USD2.5bn in 2013, backed by: 1) tougher safety standards globally, 2) automakers adopting ADAS in order to differentiate themselves and 3) the likelihood that vehicles with ADAS will be subject to lower insurance costs. Assuming revenue CAGR of 21%, we forecast ADAS to account for 43% of the auto-safety product market by 2020, from 18% in 2013.

■ Market size for various safety products (USDbn)

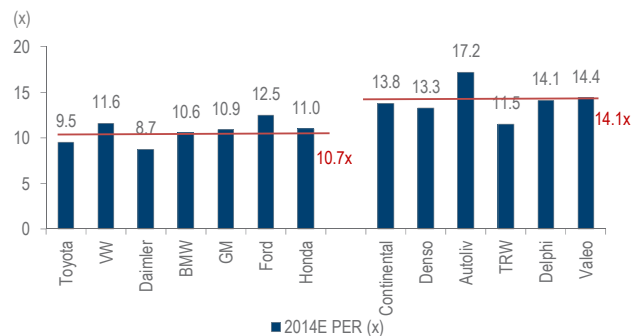


Source: Strategic Analytics (Nov,2013), Daiwa estimates

■ Valuation ✓✓✓✓✓

Global parts suppliers with a competitive advantage in active-safety products are currently trading at an average premium of 30% to global OEMs in terms of 2014E PER. We expect the valuation premium for global auto -parts suppliers with an edge in ADAS products to widen over 2014-16, as we expect them to see an EPS CAGR of 16.5% over the period (compared with 11.6% for the OEMs), based on Daiwa and Bloomberg consensus forecasts. Moreover, we look for a similar trend to play out in Korea.

■ Global OEMs vs. ADAS players: PER comparison (2014E)

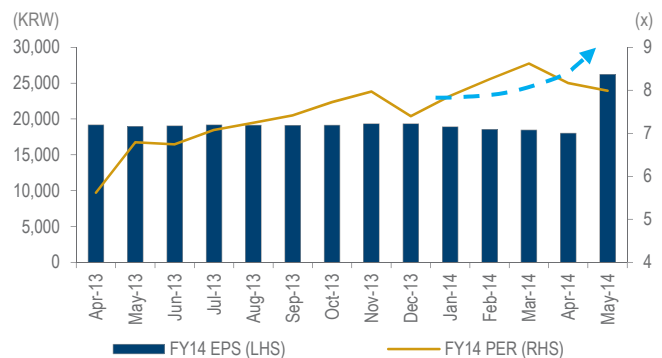


Source: Companies, Bloomberg consensus and Daiwa

■ Earnings revisions ✓✓✓✓✓

We believe Mobis, Mando and SL (based on Bloomberg-consensus forecasts) are collectively set for an upward earnings-revision cycle from 2H14-2016, given the following factors: 1) the resumption of HMG's new product cycle from 2014, and 2) improvements in their product mixes resulting from our forecast for the revenue contribution of high-margin active safety products such as ABS/EPS and ESC (Electronic Stability Control) to increase.

■ Korea ADAS product suppliers: earnings-forecast revision cycle



Source: Companies, Bloomberg consensus and Daiwa

Sector stocks: key indicators

Company Name	Stock code	Share Price	Rating		Target price (local curr.)			EPS (local curr.)					
			New	Prev.	New	Prev.	% chg	FY1			FY2		
								New	Prev.	% chg	New	Prev.	% chg
Hyundai Mobis	012330 KS	284,000	Outperform	Hold	320,000	280,000	14.3%	41,369	40,328	2.6%	44,403	42,942	3.4%
Mando Corp	060980 KS	119,000	Outperform	Outperform	135,000	135,000	0.0%	14,993	14,993	0.0%	18,072	18,072	0.0%

Source: Daiwa forecasts

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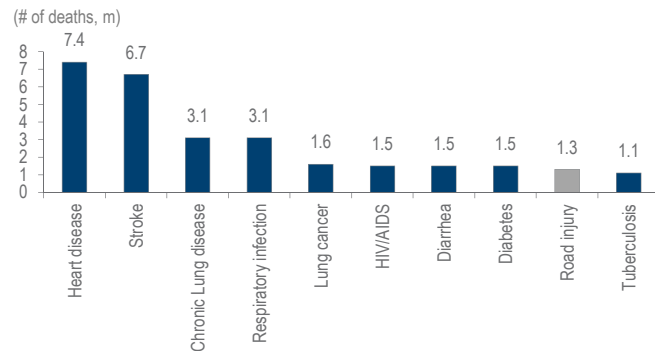
An autonomous rerating driver

Safety features growing in importance in developed markets

Rising safety content per vehicle helping to prevent road-accident casualties

According to the World Health Organization (WHO), there were 1.3m deaths from road-traffic accidents for 2012, making these the ninth-leading cause of death globally.

World's leading causes of death (2012)



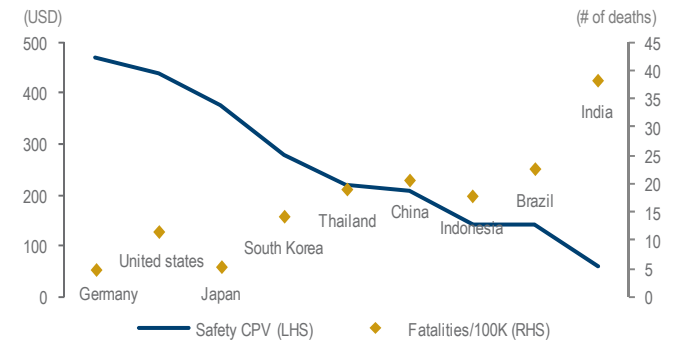
Source: WHO

Governments are strengthening the requirements for safety devices in cars to reduce the socio-economic costs and road-accident fatalities and casualties.

As the following chart shows, the safety content per vehicle is higher in developed countries than in emerging markets.

According to Autoliv, countries with high levels of safety content-per-vehicle (comprising passive and active safety products such as airbags and ABS, and, more recently, various ADAS products) have fewer road-accident casualties than those with low safety content-per-vehicle levels.

Inverse correlation between safety content-per-vehicle and road deaths



Country	Safety CPV (USD)	Fatalities/100,000
Germany	470	4.7
US	440	11.4
Japan	375	5.2
South Korea	280	14.1
Thailand	220	18.9
China	210	20.5
Indonesia	140	17.7
Brazil	140	22.5
India	60	38.1

Source: Autoliv, Daiwa

Note: CPV= content per vehicle

ADAS: the next revenue-growth driver

From passive safety to active safety to ADAS

We classify the existing range of safety products into 2 categories: active and passive. The former includes seat belts and airbags, while the latter includes ABS, electronic power steering, and electronic stability control.

We define ADAS as an advanced form of active-safety technology, which itself can be divided into 3 categories: forward sensing, lane departure, and others.

Roadmap for safety products

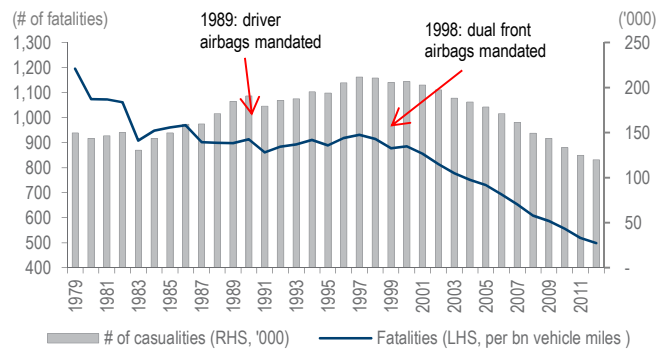
	Stage 1 Passive safety	Stage 2 Active safety	Stage 3 ADAS	Stage 4 Autonomous driving
Key technologies	Airbag Seatbelt	Antilock braking system Electronic stability control Electronic power steering	Adaptive cruise control Forward collision warning Lane-departure warning Blind-spot detection	Self-parking Highway steering
Key suppliers		Bosch Continental Delphi Denso Mobis, Mando	Autoliv Bosch Continental TRW Mobis, Mando	Bosch Continental Toyota Nissan GM
Timeframe for adoption	1981-98	1999-2015	2015-20	2015-25

Source: Daiwa

Safety products have evolved from being passive to active, and have played an integral role in reducing road-accident casualties since the late 1960s.

For instance, the UK led the way in making seatbelts mandatory for passengers sitting in the front of a vehicle in 1983 (source: Royal Society for the Prevention of Accidents), and road accident casualties per billion vehicle miles travelled in the UK have declined significantly since then. Meanwhile, the inclusion of dual front airbags has been ongoing in the US since 1989, according to the National Highway Traffic Safety Association (NHTSA). The chart below shows the impact of these measures on the number of road-accident casualties.

■ **UK: road-accidents casualties (1979-2012)**



Source: UK's Department of Transport, Daiwa

Following Toyota Motors' (Toyota) (7203 JP, JPY5,810, Outperform [2]) wide-scale recall of vehicles in 2009, we believe that automakers and customers alike are focused even more on safety rather than performance. Reflecting this, various governments around the world have started to impose regulatory measures to enforce the adoption of active safety and ADAS products, such as ABS, ESC and tyre-pressure monitoring systems (TPMS).

According to the NHTSA, the mandatory installation of ESC for all vehicles in the US from May 2007 reduced the number of road-accident casualties by 2,200 from 2008-2010.

■ **New regulatory safety measures worldwide to enforce the inclusion of active safety products**

Country/Region	New regulatory safety measures	Effective date
Korea	Electronic stability control	2012
	Tyre pressure monitoring system	2013
US	Electronic stability control	2012
	Tyre pressure monitoring system	2007
	Lane-departure warning system	Not decided
EU	Electronic stability control	2012
	Tyre pressure monitoring system	2012
	Lane-departure warning system	Not decided
Brazil	Anti-lock braking system	2014
Russia	Electronic stability control	2014
	Tyre pressure monitoring system	2016

Source: Daiwa

What is ADAS technology?

ADAS products feature built-in electronic control unit sensors, electronic power steering, and electronic stability control. As such, the early movers in terms of ADAS products have been the makers of steering and braking parts that have a competitive edge in automotive electronics. These early movers include the tier-1 suppliers of safety parts, such as Autoliv, Continental (not rated), Bosch (not listed), TRW (not rated) and Denso (6902 JP, JPY4,810, Outperform [2]).

We define ADAS as an advanced form of active safety technology that can be applied to 3 categories: 1) forward sensing, 2) lane departure, and 3) others. In the following tables, we outline the functions of the main ADAS products and where they are installed within a vehicle.

■ **ADAS technologies**

Stage/ technology	Name	Major suppliers
Forward sensing	Adaptive cruise control (ACC)	Bosch, Mobis, Mando
	Forward collision warning (FCW)	Autoliv, Bosch
	Parking assistance system (PAS)	Aisin Seiki, Mando
	Blind-spot detection (BSD)	Autoliv, Mobis
	Autonomous emergency braking (AEB)	Autoliv, Mando
Lane departure	Lane-departure warnings (LDW)	Aisin Seiki, Mobis
	Lane-keeping assistance (LKA)	Aisin Seiki, Mobis
Others	Tyre-pressure monitoring (TPM)	OEMs
	Adaptive headlights (AHL)	Denso
	Head-up display (HUD)	SL
	Surround view system (SVS)	SL, Mobis

Source: Daiwa

■ **ADAS technology**

Name	Summary
Adaptive cruise control	Controls the speed of a vehicle, ensuring a steady speed and distance from a vehicle in front
Forward collision warning	Provides warnings to drivers and encourages the avoidance of any action when there is the risk of collision with the car in front
Parking assistance system	Assists drivers by using ultrasonic sensors that detect parking spaces
Blind-spot detection	Warns drivers of the presence of a vehicle in the blind spot
Autonomous emergency braking	Applies the brakes immediately when a collision is imminent
Lane-departure warnings	Provides steering assistance to keep the car near the centre of a lane
Lane-keeping assistance	Intervenes to steer the car back into the lane when an LDW is ignored
Tyre-pressure monitoring	Monitors and reports real-time tire-pressure information to the driver
Adaptive headlights	Adjusts lighting angle of lamps according to driving conditions
Head-up display	Minimises driver distraction by projecting driving information onto the bottom of the windscreen
Surround view system	Provides 'bird's eye-view', which allows for intelligent parking decisions

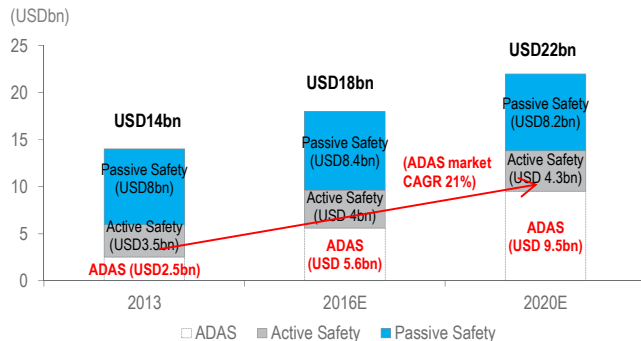
Source: Daiwa

ADAS: strong revenue growth likely

We see the widespread adoption of ADAS technology as being the next stage of the development of safety products for autos between now and 2020. Hence, we highlight ADAS as a potential revenue-growth driver in the same period.

As shown in the following chart, the market size of ADAS technology (in terms of revenue for 2013) was USD2.5bn, which equates to only 18% of the current market size of USD14bn for widely adopted safety products, such as airbags/seatbelts/advanced steering and braking systems (such as electronic power steering, ABS and electronic stability control).

■ **Market size for various safety products (USDbn)**



Source: Market research company Strategic Analytics (November 2013), Daiwa forecasts

However, we expect the market size for ADAS products to grow strongly until 2020, bolstered by the following 3 drivers.

1. Greater regulatory requirements. The road-traffic authorities in some of the developed markets, such as the US' Insurance Institute for Highway Safety (IIHS) and the New Car Assessment Program (NCAP) in the EU, are planning to add ADAS technology to their evaluation criteria in the coming years.

The EU

The EU's Euro NCAP is adding autonomous-emergency braking (AEB) and lane-keeping assistance (LKA) to its assessment criteria, and requires that vehicles sold in the EU currently have at least 1 ADAS function in order to obtain a 5-star evaluation (the best overall score).

Euro NCAP has increased its weighting of active safety products to 20% from 10%. It also plans to add autonomous emergency braking (AEB) to detect pedestrians in 2016. From 2017, all cars in Europe will have to include 2 ADAS features to be eligible for a 5-star rating.

The regulations are also being broadened to include other vehicles, and all newly produced new trucks and buses in the EU have been equipped with AEB and the LDW functions since November 2013. We believe these measures should further bolster demand for ADAS technology.

The US

The US NCAP has adopted the FCW and LDW functions as part of its assessment criteria for cars. And the National Highway Traffic Safety Administration (NHTSA) is currently reviewing the possible addition of the crash AEB function to the NCAP's criteria, and should finalise its plans in this regard within 2014.

In another sign of the increased focus of industry participants on auto safety, the IIHS in September 2013 disclosed the results of a new programme to evaluate forward-collision-prevention performance for cars. It ranked the automated braking capabilities for vehicles with optional or standard forward-collision-prevention systems as being superior, advanced, or basic.

As described in the following table, AEB will be required for heavy trucks in the US and EU from 2014-15. We expect more ADAS products to be added to the car-evaluation criteria over the next decade.

■ **US and EU: mandatory active safety regulations**

	The US			EU	
	Mandated	NCAP	IIHS	Mandated	NCAP
2013		FCW	AEB		FCW
2014					AEB, LKA
2015	AEB			AEB	
2016					AEB+PD
2017	FCW, LDW			FCW, LDW	

Source: Various press reports globally (ie, US NCAP, IIHS, EU NCAP), Daiwa
Note: PD = pedestrian detection

2) Automakers adopting more ADAS features to differentiate themselves. Currently, ADAS features are mainly available for luxury cars. For instance, the 3 mid-sized luxury model year (MY) 14 sedans (the Mercedes E Class, Lexus GS, and Audi A6) launched in the US have 6 ADAS features.

■ **Key ADAS features – mid-luxury segment (US, MY 14)**

Mid luxury (includes mass market)	FCW	AEB	LDW	LKA	AHL	BSD
Mercedes E Class	√	√	√	√	√	√
BMW 5 Series	√	√	√		√	√
Lexus GS	√	√	√	√	√	√
Audi A6	√	√	√	√	√	√
Kia K9	√		√	√		√
Hyundai Genesis	√	√	√			√
Cadillac XTS	√	√	√		√	√
Lincoln MKS	√		√	√	√	√

Source: IIHS, Company reports

Meanwhile, among the mass-market mid-sized MY14 sedans, Toyota’s hybrid electric vehicle Prius and Ford Motors’ (Ford) Fusion are equipped with 4 of the 6 ADAS features in the FCW and LDW product categories.

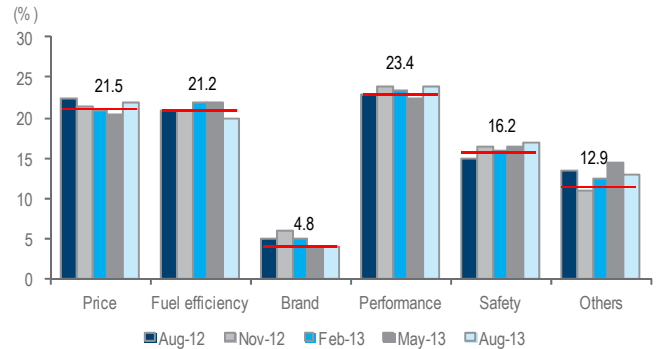
■ **Key ADAS features – mid-sized car segment (US, MY 14)**

Mid car	FCW	AEB	LDW	LKA	AHL	BSD
Ford Camry						
Honda Accord	√		√			√
Nissan Altima			√			√
Hyundai Sonata	√		√			√
GM Malibu	√		√		√	
Toyota Prius	√	√	√	√		
Ford Fusion	√		√	√		√

Source: IIHS, Company reports

Various surveys indicate that safety ratings are becoming an important factor with customers when making a car purchase, especially in developed markets.

■ **What customers look for when making a car purchase**



Source: Wards Auto Survey, Daiwa
Note: 530 individuals who were likely to make a new vehicle purchase in the next 24 months were surveyed

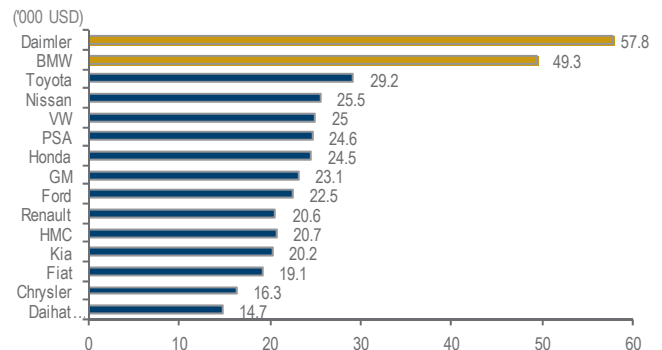
Also, from an automaker’s perspective, the rapid adoption of ADAS technologies could help them to differentiate their products.

Competition is becoming fiercer among the top-7 global automakers – Toyota Motors (Toyota), GM VW, Ford Motor, Renault-Nissan, HMG, and Honda Motors (Honda) – which together accounted for 65% of global auto industry units sold for 2013.

As more than 300 models are launched each year currently, compared with 200 models in the 1990s, we believe that enhanced safety and convenience features supported by cutting-edge electronics will become the key to product and brand differentiation for the automakers.

This should enable automakers, especially mass-market producers, to raise their ASPs.

■ **Global automakers: ASP (1H14)**



Source: Companies, compiled by Daiwa

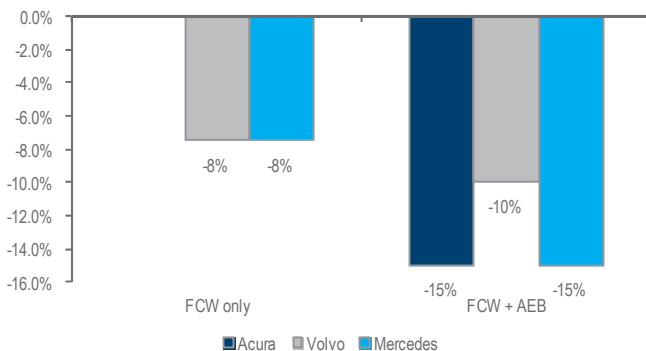
According to various customer focus-group surveys, one of the major reasons for BMW’s shipments outpacing those of Daimler in the mid-sized luxury sedan segment (BMW 5 series and Mercedes E-class) since 2010 is that the former offers more advanced ADAS features (such as surround view systems).

3) Potentially lower insurance costs. Currently, insurance companies offer a lower premium for vehicles that have safety products installed. For instance, the insurance premium declines in Korea if you have more airbags installed in your car.

Although insurers do not yet offer lower premiums for vehicles with ADAS features, we believe this could happen over the next few years, on the back of cars with ADAS features having lower accident rates.

The IIHS has begun to collect claim data on ADAS, using the products installed in Acura, Mercedes, and Volvo models. So far, IIHS has found automatic emergency braking to have the most impact, with a 10-15% reduction in property damage liability (that is, damage to other vehicles) claims. Overall, the IIHS estimates that the installation of ADAS products could reduce the number of car accidents by 32%.

■ **ADAS: reduction in property damage liability claims for vehicles with FCW and FCW +AEB**



Source: IIHS, Daiwa

Thus, we believe there is the potential for insurance premiums to decline should vehicles have more advanced safety features such as ADAS.

ADAS market dynamics: a seller's market

Mechanical parts: a buyer's market

The global auto industry makes more than 80m cars and trucks, employs millions of people, is responsible for almost half of the world's oil consumption (through its finished products), and uses nearly half of the world's annual output of rubber in manufacturing, 30% of glass output, and 20% of steel output.

For the automakers that have aligned the internal competencies, or key activities, in their value chain (R&D, design, parts procurement, manufacturing and sales) with what we regard as the key industry drivers –

stronger business growth in emerging markets, the emergence of more safety features, flexible cost structures (such as module assembly and platform integration) and fuel-efficient power trains (engines), the past decade has been successful.

The internal competency of most of the international automakers over the past century was derived from their “mechanical engineering” capabilities, through which they were able to integrate parts technology into state-of-art assembly.

This was driven by process improvements rather than product innovation. The focus on reliability over performance upgrades has resulted in a top-down relationship between automakers and parts suppliers. Technical improvements by the mechanical parts makers typically involve design and process changes aimed at cutting costs and reducing the number of parts.

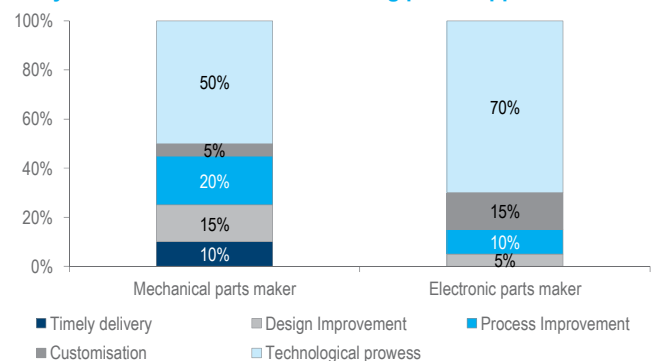
With the automakers’ orchestrating the whole manufacturing process, it has been difficult for the mechanical parts makers to have the upper hand in terms of bargaining power over the automakers.

ADAS: a seller's market

However, along with the emergence of mega-sized auto-parts suppliers, we believe the wider adoption of ADAS technologies that are associated with automotive electronics, such as electronic control units (ECU)/sensors, changes the market dynamics between the automakers and the parts suppliers.

According to a survey of Japan auto-parts suppliers by Tokyo University’s Monozukuri Management Research Centre, the collaboration between automakers and electronic parts makers is more development-oriented than the automakers’ collaboration with mechanical-parts makers.

■ **Key criteria for automakers selecting parts suppliers**



Source: Daiwa

We think the change in the auto parts suppliers' relationships from top-down to bottom-up collaboration could result in the auto-parts suppliers gaining the upper hand in terms of bargaining power.

In our view, this trend could be spurred by a combination of: 1) the top-7 global automakers revisiting their R&D expenses with a view to better aligning them with their internal competencies, such as platform integration, fuel-efficient /green cars, and 2) the limited number of mega-sized auto-parts suppliers with ADAS technology.

ADAS: today's major players

Leaders are mega-sized dealers with automotive electronics capabilities

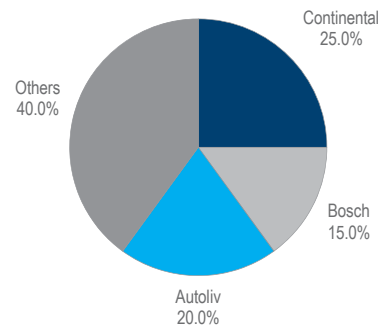
For 2013, the market size of ADAS products worldwide amounted to USD2.5bn, representing only 0.2% of the global automotive industry's market size of USD1.4tn.

However, we expect the market size of ADAS products to expand strongly until 2020, bolstered by a combination of: 1) regulatory requirements, 2) automakers using more ADAS products to differentiate themselves, and 3) potentially lower insurance costs

Although the ADAS market is still at an early stage of development, we believe the current market players can be categorised into 2 tiers, based on 2013's global market share.

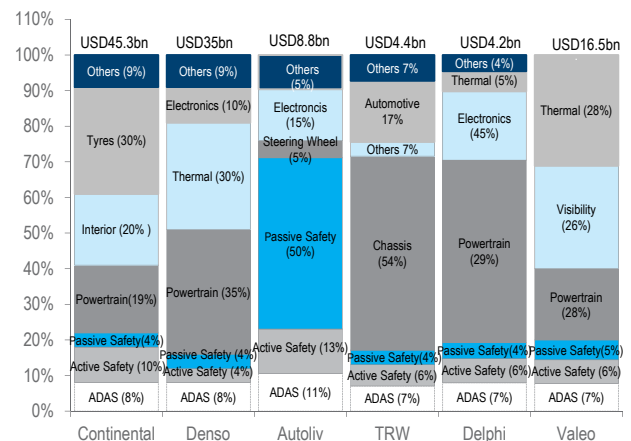
Based on 2013's global market-share levels, Autoliv, Continental, and Bosch can be seen as tier-1 ADAS players, with a combined market share of 60%. The remaining 40% is taken by a number of mega-sized auto-parts suppliers, such as Denso, TRW, Delphi, Valeo, Mando, and Mobis. All these players have some exposure to safety products, competency in manufacturing automotive electronics (ECUs/sensors) and, 3) scalability.

■ ADAS market share by company (2013)



Source: Autoliv

■ ADAS players: revenue breakdown by product (2013)



Source: Company, Daiwa

Major ADAS players: poised to be rerated further

Increased earnings visibility and valuation expansion

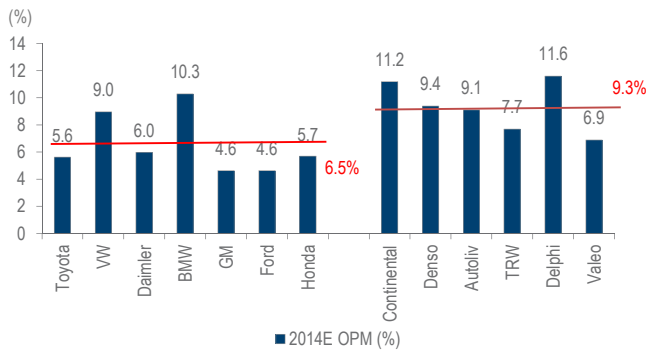
As mentioned earlier, we see the potential for the major ADAS players to increase their bargaining power over the automakers. We define the major ADAS players as the mega-auto-parts suppliers with both automotive electronics and ADAS technology capabilities.

The changes in the auto-parts suppliers' relationships, from top-down to bottom-up collaboration, could result in the auto-parts suppliers gaining the upper hand in terms of bargaining power.

As shown in the following table, the ADAS players are forecast to record an operating-profit margin of 8.5% for 2014 (based on the Bloomberg-consensus and Daiwa forecasts), higher than that of the international OEMs. Based on our forecasts and those of the Bloomberg consensus, the average 2014-16 EPS CAGR

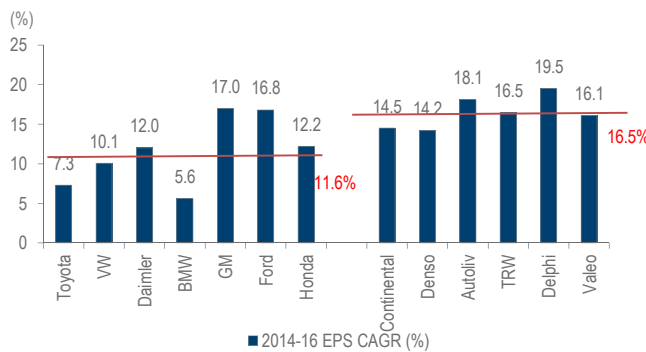
of 13.0% for the ADAS players is higher than that of the international OEMs.

■ **International OEMs vs. ADAS players: operating-profit margin comparison (2014E)**



Source: Bloomberg, Daiwa forecasts (for Denso)

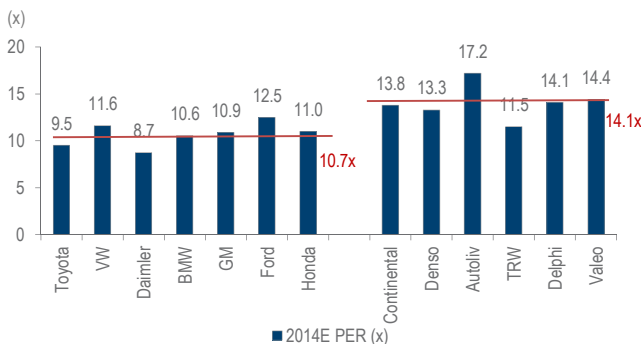
■ **International OEMs vs. ADAS players: EPS CAGR (2014-16E)**



Source: Bloomberg, Daiwa forecasts

It appears that the market is factoring in the ADAS players' increased earnings visibility into the current share prices. As the following table shows, the ADAS players are trading at an average 30% premium to the automakers in PER terms.

■ **International OEM vs. global ADAS players: PER comparison (2014E)**

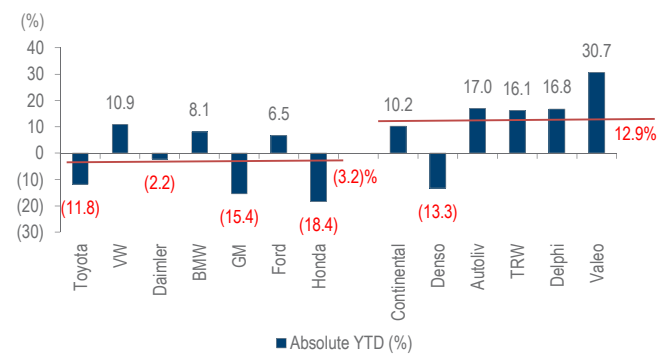


Source: Bloomberg, Daiwa forecasts

Up until 2020, we envisage the ADAS players' valuation premium continuing to widen against the major global OEMs due to what we envisage as a combination of strong market growth for ADAS technologies with a limited number of capable players.

As the following chart shows, the share prices of the ADAS players have outperformed those of the international OEMs significantly so far in 2014.

■ **Share-price performance: international OEMs vs. ADAS players**



Source: Bloomberg, Daiwa

Stage 4 of our product safety roadmap: autonomous vehicles

Automakers' move into driverless cars

Google has hit the headlines recently with the latest version of its prototype Self-Driving Car, and there are many automakers and auto-parts makers involved in the race to develop driverless cars. We believe the sensing and control systems used in ADAS can be used to take full control of a vehicle in certain conditions – much as pilots might use auto-pilot for landings or for high-altitude cruising.

Several automakers, including Ford (F US, USD18.8, Outperform [2]), BMW, Volkswagen, and Toyota/Lexus, already offer autonomous self-parking options. Toyota launched an Intelligent Parking Assist System in 2003, and refined it over the following years. The company plans to commercialise advanced driving systems that allow automatic parking, and assisted steering by the middle of this decade. Nissan, meanwhile, aims to deploy autonomous-drive technology in a number of vehicle models by 2020, while GM plans to launch a model using autonomous-drive technology for highways by 2017 under its Cadillac brand.

Auto-parts makers' moving into autonomous driving

Bosch is starting volume production of brakes for congested traffic conditions and a traffic-congestion assistance feature for automated acceleration and steering this year, and plans to begin volume production of a new parking-assistance system in 2015. The company subsequently intends to develop autonomous-driving technology in four stages. It aims to commercialise an autonomous-driving system for main highway lanes requiring driver monitoring by about 2016, followed by an autonomous-driving system for main highway lanes that does not need any driver monitoring by about 2020. The next step is autonomous driving on the entire highway network, including interchanges, in the 2020s.

Continental intends to develop and supply technology to support partial autonomous driving (such as support for stopping and starting on highways at speeds of 30km/h or less) by about 2016, and achieve advanced autonomous driving that does not require driver monitoring by about 2020 (stage 3). The company received approval to conduct driving tests of autonomous-driving technology on public roads in Nevada in December 2012, and announced an alliance with BMW on autonomous driving R&D in February 2013.

Korea auto parts industry: major beneficiaries

Our top play on the rise of ADAS is Mobis. Mando should benefit to a lesser extent

The major Korea auto-parts companies actively involved in advanced safety systems are Mobis, Mando, and SL.

Hyundai Mobis

Mobis is HMG's largest in-house supplier of parts, producing various parts used in HMG's cars. In terms of passive safety, Mobis produces airbags and seatbelts, and for active safety, ABS systems. Mobis also sells after-service parts (it is the exclusive supplier of HMG's after-service products and various types of modules, including chassis, cockpits, front-heads, and rear modules).

The company has acquired other parts vendors since 2000, and has formed technical alliances with international parts suppliers. This has enabled Mobis to develop and manufacture an increasing variety of automotive electronics parts, such as airbags, headlights, braking and navigation systems,

ESC/motor driving power steering (MDPS) integrated control systems, pre-crash technology, FCW systems, LDWS, and SVS.

Over the past few years, the company has been strengthening its competency in developing core automobile electronics. It absorbed the operations of automobile electronics (automobile semiconductor and sensor) maker Hyundai Autonet in 2009. Also, Mobis' R&D spending increased by 50% YoY to KRW320bn for 2013, with a focus on automotive electronics.

Mobis' revenue from ADAS products amounted to KRW1.6tn (4% of its total revenue) for 2013. We expect ADAS to be a revenue-growth driver through to 2020 given HMG's increasing use of automobile electronics/active-safety products.

Mando

Mando's main business areas are brakes, and steering and suspension systems. The company provides 50% of Hyundai/Kia's ABS systems: it is not engaged in making passive-safety products. Unlike Mobis, Mando has a lower revenue contribution from HMG companies (55% of total sales), amid a more diversified customer base. GM is the company's second-largest customer, accounting for 25% of revenue: Mando has been supplying GM with active-safety products such as ABS since 2011.

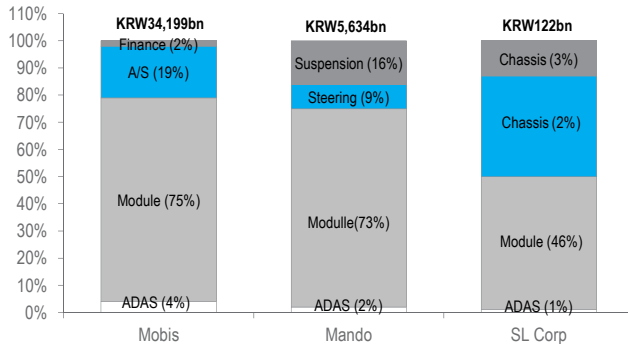
SL Corp

SL is a leading auto-lamp maker globally. Among the 8 players that account for an 80% share of the global auto-lamp market, SL ranks No. 6, based on 2013 revenue, after Koito, Automotive Lighting (AL), Hella, Stanley Electric, and Valeo.

The company was HMG's exclusive provider of auto lamps until Hyundai Mobis entered the business in 2004 by taking over Inhee Lighting. Last year, SL supplied 72% of HMG's needs. The company met 25% of GM's global lamp requirements for 2011, and targets for the figure to be close to 26% by 2014, as GM is likely to order more lamps for key models.

In addition to products related to its lamp and chassis businesses, SL has added ADAS products to its line-up. The company generated KRW18bn in consolidated sales from ADAS products for 2013.

■ **Korea ADAS players: revenue breakdown by product**



Source: Company, Daiwa forecasts

■ **Korea ADAS players: technology line-up**

Company	Technology	Major competitors
Mobis	Adaptive cruise control (ACC)	Bosch
	Lane departure warnings (LDW)	Autoliv, Bosch
	Parking assistance system (PAS)	Aisin Seiki
	Blind-spot detection (BSD)	Autoliv
Mando	Lane departure warnings (LDW)	Aisin Seiki
	Adaptive cruise control (ACC)	Bosch
SL Corp	Autonomous emergency braking (AEB)	Autoliv
	Head-up display (HUD)	Denso
	Around view monitor (AVM)	Denso

Source: Daiwa

Valuation and recommendation

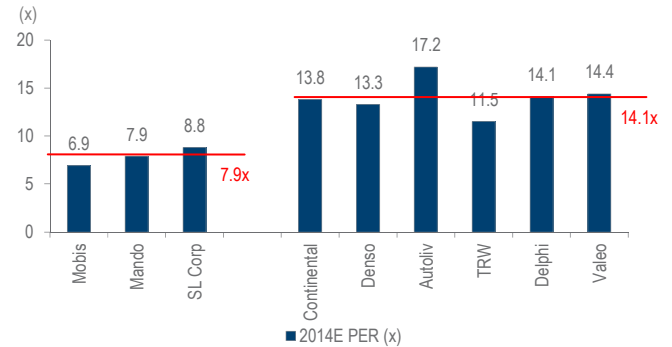
Korea ADAS players should continue to trade at a premium

Although the revenue contribution from ADAS products is much smaller for Korea ADAS players than the international companies, we believe the valuations of the Korea ADAS players such as Mobis and Mando will continue to trade at a premium to the Korea OEMs. We also note that SL trades at a premium based on the Bloomberg consensus.

Given the strong likelihood that HMG's mass-market volume vehicles will be equipped with ADAS products for reasons of differentiation, we envisage the wider use of ADAS technology from the Korea OEMs. We estimate that the size of the ADAS market in Korea will be worth USD5.8bn in 2020, up from USD1.4bn for 2013.

As shown in the following chart, Mobis, Mando, and SL are trading currently at premiums to HMC and Kia, and we expect this trend to continue until at least 2020.

■ **Korea OEMs vs. international ADAS players: PER comparison**



Source: Bloomberg consensus and Daiwa

Hyundai Mobis: upgrading to Outperform

Previously, we expected continued pricing pressure from HMG on the module and core-parts division, and reduced margins as a result. However, now we believe Mobis can become a leading player in the auto-parts industry on the back of the ADAS theme. We upgrade Hyundai Mobis to Outperform(2), and see it being the major beneficiary in Korea of the rise of ADAS.

Mobis is the sole supplier of brake and steering systems for the new LF Sonata (launched by Hyundai Motors in March 2014) and has incorporated FCW and LDW technology into the car. We believe the supplier deal for the LF Sonata, as well as the increase in the proportion of its revenue from ADAS since 2013, show that Mobis is closing the technology gap with the leading international parts makers. In our view, this trend should accelerate given HMG's planned capacity ramp-up overseas.

We are raising our 2014-16 EPS forecasts by 3-5%, on the back of higher operating-profit expectations for the module and core parts business. We now forecast the proportion of revenue from high-margin core components to rise to 38% of the total for 2014 (36% previously), 40% for 2015 (from 38%), and 42% for 2016 (from 40%). In addition, we are raising our NOPLAT assumptions for our DCF valuation beyond 2016 to 7.1% from 6.8%. As a result of these revisions, we are raising our 6-month target-price (blended SOTP, PER, and DCF) to KRW320,000 from KRW280,000, and upgrading our rating to Outperform (2) from Hold (3).

■ **Hyundai Mobis: valuation methodology**

	A/S parts	Module	Total
SOTP			
2014E Revenue	7,105	30,962	38,067
2014 E EBITDA	1,815	2,987	4,802
Target EV/EBITDA	6	2	-
Divisional EV	10,891	5,974	16,865
Value of affiliate holdings			10,315
Total EV			27,179
Net debt			(4,664)
Net equity value			31,843
No of shares			97.3
Value per share			327,122
	Unit	Previous	New
DCF			
Discounted NPV value	(KRWbn)	15,352	17,520
PV terminal value	(KRWbn)	7,644	7,207
Net cash/(debt)	(KRWbn)	4,784	4,664
Value of equity	(KRWbn)	27,780	29,391
No. of shares	(m shares)	97.3	97.3
Fair value	(KRW)	285,379	301,926
Target PER			
Target PER	(x)	8	8
2014 EPS forecast	(KRW)	34,328	41,369
Fair value	(KRW)	274,621	330,953
Target price	(KRW)	280,000	320,000
			320,000

Source: Daiwa

Given HMG's increasing use of these products, we forecast the revenue proportion of ADAS products to rise to 10% of Mobis' 2020 revenue, from 4% for 2013.

Our revised rating and target price for Mobis are based on: 1) HMC's and Kia's combined global shipments rising by 35.8% to 10m units for 2020, from 7.4m units for 2013, 2) the adoption rate of ADAS products globally rising to 3.5% for 2020, from 1.2% for 2013 with ADAS products being used in volume sellers, and 3) the content-per-vehicle for ADAS products rising to KRW 772,086/car for 2020, from KRW247,399/car for 2014E.

■ **Hyundai Mobis: major assumptions for ADAS products**

	2013	2016E	2020E
Auto revenue from HMG (KRWbn)	151,800	185,800	220,596
Shipments ('000)	7,363	8,628	10,000
ASP ('000 KRW)	20,617	21,535	22,060
Adoption rate of ADAS (%)	1.2	2.5	3.5
ADAS Content per vehicle (KRW)	247,399	538,363	772,086
Mobis's share of business with HMG (%)	70	70	70
ADAS revenue for Mobis (KRWbn)	1,275	3,252	5,405
Total revenue (KRWbn)	34,199	47,814	56,816
Revenue proportion of ADAS (%)	4%	7%	10%

Source: Company, Daiwa forecasts

The main risk to our view would be greater-than-expected pricing pressure from OEMs.

Mando: new safety products could fuel next earnings-growth cycle

As we have mentioned, the early movers in the ADAS market have been makers of steering and braking parts that have a competitive edge in automotive electronics. As at the end-2013, braking (ABS/ESC) and steering systems accounted for 31% of Mando's total revenue. The company also has the in-house technology to make ECUs/sensors that are produced by Mando Hellaware. (Not listed). We believe Mando could thus quickly make inroads into the ADAS market.

We reaffirm our Outperform(2) rating for Mando and DCF/PER-based 6-month target-price of KRW135,000. In our view, ADAS should be a revenue-growth driver for the company through to 2022, backed by HMG's rising adoption of such products. However, we see Mando as likely to benefit from the rise of ADAS to a lesser extent than Mobis because of the following: 1) we forecast ADAS to comprise only 6% of Mando's revenue by 2020, compared with 10% for Mobis, and 2) we forecast the adoption rate of ADAS products for Mando to reach 2.8% by 2020, compared with 3.5% for Mobis.

Our rating and target price are based on: 1) HMG and GM's combined global shipments rising by 15.6% to 20m units in 2020, from 17m units in 2013, 2) the adoption rate of ADAS products rising to 2.8% in 2020, from 1.1% in 2013 with further penetration of ADAS products into volume sellers, and: 3) the content-per-vehicle for ADAS products rising to KRW791,883/car in 2020, from KRW247,554/car in 2014.

The main risk to our view would be greater-than-expected pricing pressure from OEMs.

■ **Mando: major assumptions for ADAS products**

	2013	2016	2020
Auto revenue from HMG+GM (KRWbn)	379,500	464,500	551,490
HMG+GM shipments ('000)	16,863	18,128	19,500
HMG+GM ASP ('000 KRW)	22,505	25,623	28,282
Adoption rate of ADAS (%)	1.1	2	2.8
ADAS content per vehicle (KRW)	247,554	512,467	791,883
Mando's share of business with HMG (%)	30	30	30
Mando share of business with GM (%)	8	8	8
ADAS revenue for Mobis (KRWbn)	134	315	537
Total revenue (KRWbn)	5,636	7,934	8,534
Revenue proportion of ADAS (%)	2%	4%	6%

Source: Company, Daiwa forecasts

SL Corp: leading auto lamp maker developing ADAS products

SL Corp is the No.1 auto-lamp maker in South Korea, with a 60% market share of shipments to Hyundai Motor Group (HMG). In an effort to diversify its product portfolio and improve its long-term profitability, SL recently completed the development of high-value-added ADAS products. These include a

head-up display (HUD) and a surround view system (SVS). Its ADAS products are currently installed in a limited number of upscale passenger and commercial vehicle models, but Korean automakers are gradually expanding the applications of these products.

Given that Hyundai Mobis and Mando have developed similar ADAS products, SL acknowledges that it may not be able to capture a dominant market share of ADAS product supplies to HMG. As such, the company plans to focus more on global OEMs, including GM, to secure a customer base for its ADAS products. It expects to generate about 7% of its revenue from ADAS products by 2020.

SL Corp expects to generate strong earnings growth over the next several years, bolstered by: 1) margin expansion over the long term, supported by value-added ADAS products, and 2) top-line growth supported by its diversified customer base, including the planned launch of GM's Cruze in 2015.

■ **SL Corp: major assumptions for ADAS products**

	2013	2016	2020
Auto revenue from HMG (KRWbn)	151,800	185,800	220,596
Shipments ('000)	7,363	8,628	10,000
ASP ('000 KRW)	20617	21535	22060
Adoption rate of ADAS (%)	1	2	2
Content per vehicle (KRW)	247399	344553	397072.8
SL Corp share of business with HMG (%)	1	1.5	2
ADAS revenue for SL Corp (KRWbn)	18,216	59,456	119,12184
Total revenue (KRWbn)	1,242	1,520	1,804
Revenue proportion of ADAS (%)	1%	4%	7%

Source: Company, Bloomberg

Risks to our sector view

We maintain our Positive view of the Korea Auto Sector. The main risks to this view include: 1) greater-than-expected pricing pressure from the OEMs, and 2) slower demand/penetration for ADAS products than we expect.

■ **Auto-parts makers globally: valuation data**

Company	Bloomberg code	Currency	Share price	Daiwa rating	Mcap (USDm)	Absolute (%)			Relative (%)			PER (x)		PBR (x)		EV/ EBITDA (x)		ROE (%)		Div. yield (%)		OPM (%)	
						YTD	1M	3M	1W	1M	3M	14E	15E	14E	15E	14E	15E	14E	15E	14E	15E	14E	15E
US																							
JOHNSON CONTROLS	JCI US	USD	50.1	Hold	33,241	(2.4)	12.5	2.2	1.5	8.6	(1.7)	15.9	13.4	2.8	2.5	10.5	9.4	16.7	18.1	1.7	1.8	6.2	7.1
BORGLWARNER	BWA US	USD	65.9	Hold	15,069	17.9	11.5	7.5	2.7	7.6	3.6	19.8	16.7	3.6	3.1	11.0	9.6	19.6	20.4	0.6	0.6	12.9	13.3
TRW AUTOMOTIVE	TRW US	USD	86.3	Not rated	9,562	16.1	9.4	4.5	0.4	5.5	0.6	11.5	10.1	2.2	1.8	6.0	5.5	19.7	19.4	n.a.	n.a.	7.7	7.9
Autoliv	ALV US	USD	107.4	Not rated	10,061	17.0	5.9	10.8	(0.7)	2.0	6.9	17.2	14.7	2.4	2.2	8.4	7.5	14.2	15.4	2.0	2.1	9.1	9.7
Delphi	DLPH US	USD	70.2	Not rated	21,329	16.8	5.1	5.4	0.7	1.2	1.5	14.1	12.3	5.7	4.3	8.9	8.1	44.7	40.9	1.4	1.5	11.6	12.1
VISTEON	VC US	USD	93.8	Not rated	4,540	14.5	3.1	10.8	1.4	(0.8)	6.9	32.1	20.9	3.2	3.3	6.5	5.8	7.3	9.8	n.a.	n.a.	4.5	5.1
Japan																							
DENSO	6902 JP	JPY	4,810	Outperform	41,588	(13.3)	8.6	(10.4)	(0.4)	3.2	(10.5)	13.3	13.3	1.5	1.3	7.2	6.8	11.5	10.4	2.0	2.2	9.4	9.3
AISIN SEIKI	7259 JP	JPY	3,720	Outperform	10,721	(12.9)	7.4	2.2	(0.1)	1.9	2.1	11.5	10.8	1.1	1.0	4.3	3.9	9.9	9.6	2.2	2.6	6.4	6.6
TOYOTA INDUSTRIES	6201 JP	JPY	4,940	Hold	15,742	4.1	9.3	3.5	1.7	3.9	3.4	16.9	14.2	0.9	0.8	9.6	7.8	5.5	6.0	1.5	1.9	5.4	5.6
Korea																							
HYUNDAI MOBIS*	012330 KS	KRW	284,000	Outperform	27,192	(3.2)	(2.2)	(5.6)	(2.9)	(5.1)	(8.6)	6.9	6.4	1.2	1.0	4.8	4.1	18.8	17.3	0.7	0.7	8.9	8.9
MANDO*	060980 KS	KRW	119,000	Outperform	2,107	(4.8)	(3.3)	(11.5)	6.1	(6.1)	(14.5)	7.9	6.6	1.1	0.9	5.0	4.1	14.6	15.1	0.8	0.8	6.1	6.5
HYUNDAI WIA*	011210 KS	KRW	186,500	Buy	4,720	(1.8)	6.6	16.6	3.7	3.7	13.6	9.7	7.7	1.9	1.5	6.0	4.7	20.6	21.7	0.4	0.4	7.7	8.6
SL Corp	005850 KS	KRW	21,250	Not rated	708	30.0	18.1	24.6	6.1	15.2	21.7	8.8	8.0	1.0	0.9	7.4	6.9	11.9	11.8	0.7	0.7	4.1	4.4
HALLA CC	018880 KS	KRW	47,500	Not rated	4,988	22.6	6.5	19.8	(0.5)	3.7	16.9	15.3	13.5	2.9	2.5	9.7	9.0	20.6	20.2	2.1	2.2	7.4	7.8
Others																							
MAGNA INTL	MG CN	CAD	117.1	Not rated	23,419	34.4	10.0	9.6	3.4	7.7	5.6	14.1	12.2	2.7	2.4	6.9	6.3	19.2	18.7	1.3	1.6	6.3	6.8
Continental AG	CON GY	EUR	175.6	Not rated	47,580	10.2	7.3	(0.9)	1.1	2.9	(7.8)	13.8	12.1	3.2	2.6	7.3	6.6	24.7	23.4	1.7	2.1	11.2	11.7
VALEO	FR FP	EUR	105.2	Not rated	11,325	30.7	11.5	2.9	3.7	9.1	(2.1)	14.4	12.5	2.9	2.5	6.0	5.3	21.2	20.7	2.0	2.4	6.9	7.4
Industry average					16,699	10.3	7.5	5.4	1.6	3.8	2.2	14.3	12.1	2.4	2.0	7.4	6.6	17.7	17.6	1.4	1.6	7.7	8.2

Source: Bloomberg, *Daiwa forecasts

Note: Share prices are as of 10 June 2014. **Relative to each country index.

■ Korea ADAS players: valuation summary

		Hyundai Mobis	Mando	*SL Corp
Bloomberg code		012330 KS	060980 KS	005850 KS
Share price (10 June 2014) (KRW)		284,000	119,000	21,250
Target price (KRW)		320,000	135,000	n.a.
Upside potential		12.7%	13.4%	n.a.
Daiwa rating		Outperform	Outperform	n.a.
Valuation				
Revenue (KRWbn)	2014E	39,062	6,182	1,343
	2015E	44,999	7,002	1,446
	2016E	47,854	7,934	1,512
Revenue growth	2014E	14.2%	9.7%	8.2%
	2015E	15.2%	13.3%	7.7%
	2016E	6.3%	13.3%	4.6%
EPS (KRW)	2014E	41,369	14,993	2,400
	2015E	44,403	18,072	2,655
	2016E	46,734	21,062	2,853
EPS growth	2014E	18.6%	53.7%	11.2%
	2015E	7.3%	20.5%	10.6%
	2016E	5.3%	16.5%	7.5%
PER (x)	2014E	6.9	7.9	8.8
	2015E	6.4	6.6	8.0
	2016E	6.1	5.6	7.0
BVPS (KRW)	2014E	237,613	110,405	21,613
	2015E	275,170	128,341	24,045
	2016E	318,308	157,983	26,713
PBR (x)	2014E	1.2	1.1	1.0
	2015E	1.0	0.9	0.9
	2016E	0.9	0.8	0.7
ROE (%)	2014E	18.8	14.6	11.9
	2015E	17.3	15.1	11.8
	2016E	15.8	15.2	11.5
EV/EBITDA (x)	2014E	4.8	5.0	7.4
	2015E	4.1	4.1	6.9
	2016E	3.7	3.5	6.2
Dividend yield (%)	2014E	0.7	0.8	0.7
	2015E	0.7	0.8	0.7
	2016E	0.7	0.8	0.7
Operating-profit margin (%)	2014E	8.9	6.1	4.0
	2015E	8.9	6.5	4.3
	2016E	9.2	6.6	4.6

Source: Daiwa forecasts, *Bloomberg

Hyundai Mobis

012330 KS

Upgrading due to enhanced earnings visibility

- We believe Mobis has the potential to become a leading player in advanced driver assistance systems (ADAS) globally by 2020
- On the back of HMG's new product cycle, we forecast key components to make an increasing revenue contribution
- Revising up earnings forecasts, target price, and rating. Mobis' valuation appeals in historical context and relative to HMC

Target (KRW): **280,000 → 320,000**

Upside: **12.7%**

10 Jun price (KRW): **284,000**

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



Sung Yop Chung

(82) 2 787 9157

sychung@kr.daiwacm.com

■ What's new

Following our recent company visit, we believe Hyundai Mobis has the potential to become a leading ADAS player globally by 2020, backed by HMG's adoption of ADAS and Mobis' scope for market-share gains.

■ What's the impact

We highlight ADAS products as a new earnings-growth driver for Mobis in the coming years. From 4% in 2013, we forecast the contribution of ADAS to Mobis' revenue to rise to 10% by 2020. Our view of ADAS as an earnings-growth driver is predicated on the following assumptions: 1) HMC and Kia's combined global shipments to rise by 35.8% to 10m units in 2020, from 7.4m in 2013, 2) HMG's adoption rate of ADAS products to rise to 3.5% in 2020, from 1.2% in 2013, as ADAS products find their way into high-volume products, and 3) the content-per-vehicle of ADAS products to increase to

KRW772,086/car in 2020, from KRW247,399 in 2014.

Core parts' contribution to Mobis' total revenue was stable at 60-65% for 2011-13, with key components accounting for the remainder. However, following our visit, we now expect Mobis' share of HMG's requirements for high-margin steering products such as electronic power steering to rise to 70% from 2H14, from 60-65% in the past 3 years. Assuming that high-margin key components account for 38%, 40% and 42% of Mobis' revenue in 2014-16, respectively (previously 36%, 38% and 40%), we revise up our 2014-16 EPS forecasts by 3-5%.

■ What we recommend

Factoring in our revised earnings forecasts and a new NOPLAT assumption in our DCF valuation for 2016 onward (now 7.1%, from 6.8% previously), we raise our 6-month target price (blended SOTP, PER and DCF) by 18% to KRW320,000, from KRW280,000. Given potential upside of 12.7%, we upgrade our rating to Outperform (2), from Hold (3). The main risk to our view would be greater-than-expected pricing pressure from OEMs.

■ How we differ

We are 4-9% above the Bloomberg consensus on 2014-15 core EPS, as we

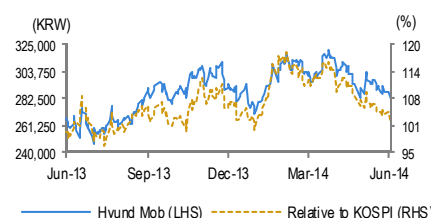
are more bullish on Mobis' key components profits and equity-method income from HMC.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	3.3	4.8	4.1
Net profit change	2.6	3.4	5.2
Core EPS (FD) change	2.6	3.4	5.2

Source: Daiwa forecasts

Share price performance



12-month range	246,500-321,000
Market cap (USDbn)	27.20
3m avg daily turnover (USDm)	45.75
Shares outstanding (m)	97
Major shareholder	Kia Motors (16.9%)

Financial summary (KRW)

Year to 31 Dec	14E	15E	16E
Revenue (bn)	39,062	44,999	47,854
Operating profit (bn)	3,476	4,000	4,382
Net profit (bn)	4,027	4,322	4,549
Core EPS (fully-diluted)	41,369	44,403	46,734
EPS change (%)	18.6	7.3	5.3
Daiwa vs Cons. EPS (%)	8.7	4.4	1.4
PER (x)	6.9	6.4	6.1
Dividend yield (%)	0.7	0.7	0.7
DPS	1,900	1,900	1,900
PBR (x)	1.2	1.0	0.9
EV/EBITDA (x)	4.8	4.1	3.7
ROE (%)	18.8	17.3	15.8

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
A/S parts' revenue growth (YoY %)	n.a.	n.a.	13.2	9.2	5.6	14.2	23.1	11.9
Module's revenue growth (YoY %)	n.a.	n.a.	20.3	15.1	12.3	14.6	13.7	4.8
A/S parts' operating profit margin (%)	n.a.	24.8	22.7	22.6	21.1	21.1	19.2	19.2
Module's operating profit margin (%)	n.a.	7.6	6.9	6.8	6.3	6.7	6.8	7.0

■ Profit and loss (KRWbn)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Module and Core-parts Revenues	0	17,380	20,903	24,060	27,022	30,962	35,202	36,899
A/S Parts Revenues	0	4,764	5,391	5,889	6,220	7,105	8,748	9,791
Other Revenue	17,230	1	(0)	840	956	996	1,048	1,164
Total Revenue	17,230	22,144	26,295	30,789	34,199	39,062	44,999	47,854
Other income	710	903	882	1,018	1,124	1,289	1,485	1,579
COGS	(13,989)	(17,910)	(22,257)	(26,245)	(29,386)	(33,471)	(38,474)	(40,915)
SG&A	(1,547)	(1,903)	(1,400)	(1,638)	(1,889)	(2,116)	(2,525)	(2,557)
Other op.expenses	(710)	(903)	(882)	(1,018)	(1,124)	(1,289)	(1,485)	(1,578)
Operating profit	1,694	2,331	2,637	2,906	2,924	3,476	4,000	4,382
Net-interest inc./(exp.)	(39)	(3)	23	69	33	33	30	28
Assoc/forex/extraord./others	419	924	1,402	1,632	1,577	1,567	1,442	1,422
Pre-tax profit	2,074	3,252	4,063	4,607	4,535	5,075	5,472	5,832
Tax	(500)	(746)	(1,036)	(1,065)	(1,138)	(1,048)	(1,150)	(1,283)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	1,574	2,506	3,027	3,542	3,396	4,027	4,322	4,549
Net profit (adjusted)	1,574	2,506	3,027	3,542	3,396	4,027	4,322	4,549
EPS (reported)(KRW)	17,020	25,743	31,094	36,387	34,891	41,369	44,403	46,734
EPS (adjusted)(KRW)	17,020	25,743	31,094	36,387	34,891	41,369	44,403	46,734
EPS (adjusted fully-diluted)(KRW)	17,020	25,743	31,094	36,387	34,891	41,369	44,403	46,734
DPS (KRW)	1,250	1,500	1,750	1,900	1,900	1,900	1,900	1,900
EBIT	1,694	2,331	2,637	2,906	2,924	3,476	4,000	4,382
EBITDA	2,405	3,234	3,519	3,924	4,048	4,764	5,485	5,961

■ Cash flow (KRWbn)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	2,074	3,252	4,063	4,607	4,535	5,075	5,472	5,832
Depreciation and amortisation	710	903	882	1,018	1,124	1,289	1,485	1,579
Tax paid	(500)	(746)	(1,036)	(1,065)	(1,138)	(1,048)	(1,150)	(1,283)
Change in working capital	(95)	(1,937)	(388)	(3,712)	(905)	(913)	(1,205)	(1,062)
Other operational CF items	(1,540)	826	(1,361)	2,265	(1,157)	(1,942)	(1,915)	(1,904)
Cash flow from operations	650	2,297	2,159	3,113	2,458	2,461	2,687	3,163
Capex	(356)	(414)	(716)	(858)	(644)	(612)	(581)	(552)
Net (acquisitions)/disposals	(1,214)	(237)	(2,135)	(1,339)	(68)	(338)	(355)	(373)
Other investing CF items	4	(21)	(1)	183	(29)	(462)	(462)	(462)
Cash flow from investing	(1,566)	(673)	(2,852)	(2,014)	(741)	(1,412)	(1,398)	(1,387)
Change in debt	731	(144)	423	(160)	(91)	(64)	(39)	(19)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(86)	(121)	(145)	(170)	(185)	(185)	(185)	(185)
Other financing CF items	(81)	(22)	24	(32)	(1,301)	(653)	(757)	(1,233)
Cash flow from financing	564	(287)	303	(362)	(1,577)	(902)	(981)	(1,437)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	(353)	1,338	(390)	737	140	147	308	339
Free cash flow	294	1,883	1,443	2,255	1,814	1,849	2,106	2,611

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (KRWbn)

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	1,125	2,712	3,328	6,597	6,660	6,993	7,497	8,041
Inventory	1,270	1,568	1,837	1,968	2,286	2,696	3,099	3,410
Accounts receivable	3,634	3,951	4,749	5,195	6,080	6,836	7,875	8,507
Other current assets	72	102	149	183	219	263	316	379
Total current assets	6,100	8,332	10,064	13,943	15,245	16,788	18,787	20,337
Fixed assets	2,524	2,646	3,319	3,714	3,904	4,217	4,451	4,695
Goodwill & intangibles	898	692	861	1,047	1,099	1,154	1,212	1,272
Other non-current assets	4,679	5,581	8,332	11,343	13,320	15,678	18,492	21,853
Total assets	14,201	17,251	22,576	30,047	33,568	37,837	42,942	48,157
Short-term debt	1,692	1,613	2,336	1,759	1,797	1,836	1,876	1,917
Accounts payable	3,229	3,389	3,952	4,440	4,898	5,578	6,412	6,933
Other current liabilities	467	681	739	996	896	807	726	653
Total current liabilities	5,388	5,683	7,027	7,195	7,591	8,221	9,014	9,503
Long-term debt	538	519	328	726	597	493	414	354
Other non-current liabilities	517	862	1,427	5,087	5,611	5,993	6,728	7,633
Total liabilities	6,443	7,063	8,781	13,007	13,798	14,707	16,156	17,490
Share capital	491	491	491	491	491	491	491	491
Reserves/R.E./others	7,268	9,697	13,303	16,549	19,278	22,639	26,295	30,176
Shareholders' equity	7,759	10,188	13,795	17,040	19,770	23,130	26,786	30,667
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	14,201	17,251	22,576	30,047	33,568	37,837	42,942	48,157
EV	28,751	27,066	26,981	23,533	23,379	22,982	22,438	21,875
Net debt/(cash)	1,105	(580)	(665)	(4,112)	(4,267)	(4,664)	(5,207)	(5,770)
BVPS (KRW)	79,703	104,661	141,710	175,047	203,090	237,613	275,170	318,308

■ Key ratios (%)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	24.4	28.5	18.7	17.1	11.1	14.2	15.2	6.3
EBITDA (YoY)	36.9	34.5	8.8	11.5	3.2	17.7	15.1	8.7
Operating profit (YoY)	39.5	37.6	13.1	10.2	0.6	18.8	15.1	9.6
Net profit (YoY)	51.5	59.2	20.8	17.0	(4.1)	18.6	7.3	5.3
Core EPS (fully-diluted) (YoY)	43.4	51.3	20.8	17.0	(4.1)	18.6	7.3	5.3
Gross-profit margin	18.8	19.1	15.4	14.8	14.1	14.3	14.5	14.5
EBITDA margin	14.0	14.6	13.4	12.7	11.8	12.2	12.2	12.5
Operating-profit margin	9.8	10.5	10.0	9.4	8.6	8.9	8.9	9.2
Net profit margin	9.1	11.3	11.5	11.5	9.9	10.3	9.6	9.5
ROAE	24.0	27.9	25.2	23.0	18.5	18.8	17.3	15.8
ROAA	12.8	15.9	15.2	13.5	10.7	11.3	10.7	10.0
ROCE	19.5	20.9	18.3	16.2	14.0	14.6	14.7	14.1
ROIC	17.5	19.4	17.3	17.1	15.4	16.2	15.8	14.7
Net debt to equity	14.2	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	24.1	22.9	25.5	23.1	25.1	20.6	21.0	22.0
Accounts receivable (days)	61.9	62.5	60.4	58.9	60.2	60.3	59.7	62.5
Current ratio (x)	1.1	1.5	1.4	1.9	2.0	2.0	2.1	2.1
Net interest cover (x)	42.9	815.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	7.3	5.8	5.6	5.2	5.4	4.6	4.3	4.1
Free cash flow yield	1.1	6.8	5.2	8.2	6.6	6.7	7.6	9.4

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%.

■ **Mobis: valuation methodology**

SOTP	A/S parts	Module	Total
2014E Revenue	7,105	30,962	38,067
2014 E EBITDA	1,815	2,987	4,802
Target EV/EBITDA	6	2	-
Divisional EV	10,891	5,974	16,865
Value of affiliate holdings			10,315
Total EV			27,179
Net debt			(4,664)
Net equity value			31,843
No of shares			97.3
Value per share			327,122
	Unit	Previous	New
DCF			

Discounted NPV value	(KRWbn)	15,352	17,520
PV terminal value	(KRWbn)	7,644	7,207
Net cash/(debt)	(KRWbn)	4,784	4,664
Value of equity	(KRWbn)	27,780	29,391
No. of shares	(m shares)	97.3	97.3
Fair value	(KRW)	285,379	301,926
Target PER			
Target PER	(x)	8	8
2014 EPS forecast	(KRW)	34,328	41,369
Fair value	(KRW)	274,621	330,953

Target price	(KRW)	280,000	320,000
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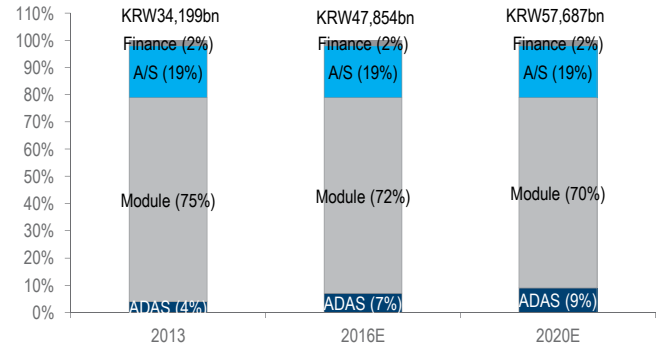
Source: Daiwa

■ **Mobis: major revisions to our earnings forecasts**

	2014E			2015E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	39,062	37,821	3.3	44,999	42,927	4.8
Module and Core parts	30,962	29,367	5.4	35,202	32,719	7.6
A/S Parts	7,105	7,320	(2.9)	8,748	9,012	(2.9)
Finance	996	1,135	(12.2)	1,048	1,195	(12.3)
Operating profit	3,476	3,341	4.0	4,000	3,757	6.5
OP margin (%)	8.9	8.8		8.9	8.8	
Module and Core-parts	2,090	1,950	7.2	2,394	2,219	7.9
OP margin (%)	6.8	6.6		6.8	6.8	
A/S Parts	1,384	1,521	(9.0)	1,598	1,728	(7.5)
OP margin (%)	19.5	20.8		18.3	19.2	
Finance	2.0	(130.0)	101.5	8.0	(190.0)	104.2
OP margin (%)	0.2	(11.5)		0.8	(15.9)	
Recurring Profit	5,075	5,098	(0.5)	5,472	5,429	0.8
RP Margin (%)	13	13.5		12.2	12.8	
Tax	1,048	1,172	(10.6)	1,150	1,249	(7.9)
Tax rate (%)	20.6	23		21	23	
Net profit	4,027	3,926	2.6	4,322	4,180	3.4
NP margin (%)	10.3	10.4		9.7	9.9	

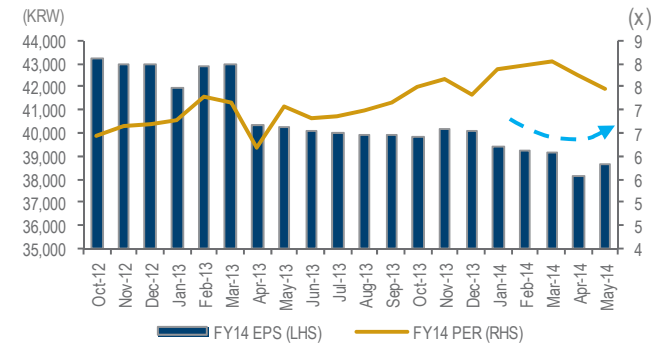
Source: Daiwa

■ **Mobis: revenue breakdown by product (2013 to 2020)**



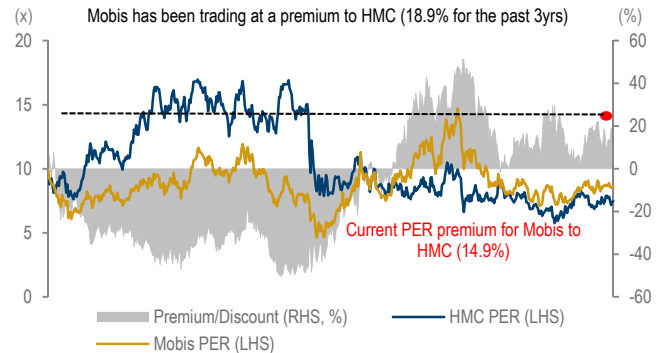
Source: Company, Daiwa

■ **Mobis: trend in consensus EPS and PER**



Source: Company, Bloomberg

■ **HMC vs. Mobis: PER gap trend**



Source: Dataguide

■ **Mobis: major assumptions for ADAS products**

	2013	2016	2020
Auto Revenue from HMG (KRWbn)	151,800	185,800	220,596
Shipment('000)	7,363	8,628	10,000
ASP ('000KRW)	20,617	21,535	22,060
Adoption rate of ADAS (%)	1.2	2.5	3.5
CPV (KRW)	247,399	538,363	772,086
Mobis M/S for HMG (%)	70	70	70
ADAS revenue for Mobis (KRWbn)	1,275	3,252	5,405
Total revenue (KRWbn)	34,199	47,854	56,816
Revenue proportion of ADAS (%)	4%	7%	10%
Auto Revenue for HMG (KRWbn)	151,800	185,800	220,596

Source: Company, Daiwa forecasts

Note: M/S = Market Share, ASP = Average Selling Price, CPV = Contents per Vehicle

Mando Corp

060980 KS

New safety products could fuel next earnings-growth cycle

- Advantage in active safety products could support company's fast move into advanced driver assistance systems (ADAS)
- Share-price overhang should be resolved after shareholder meeting in July to vote on spinning off the company
- Upward earnings revision cycle to become more apparent in 2014 on improved product mix and HMG's new product cycle

Target (KRW): **135,000 → 135,000**
Upside: **13.4%**
10 Jun price (KRW): **119,000**

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



Sung Yop Chung

(82) 2 787 9157
sychung@kr.daiwaacm.com

■ **What's new**

Bolstered by its strong competitive advantage in active safety products (braking and steering systems), we now believe Mando has the potential to move quickly into ADAS products.

■ **What's the impact**

As at end-2013, high-margin braking (ABS/ESC) and steering systems accounted for 31% of total revenue. The company also has the in-house technology to make electronic control units (ECUs) /sensors that are produced by Mando Hellaware (Not listed). We believe Mando could thus move quickly to enter the ADAS market. We forecast revenue from ADAS products to rise to 6% of Mando's 2020 revenue from 2% for 2013.

Within our model we have factored in: 1) HMG's and GM's combined global vehicle shipments rising by 15.6% to 20m units for 2020, from 17m units for 2013, 2) the adoption rate of ADAS products

internationally, rising to 2.8% for 2020, from 1.1% in 2013 with the further use of ADAS products in volume-sellers, and 3) the content-per-vehicle for ADAS products rising to KRW791,883/car for 2020, from KRW247,554/car for 2014.

■ **What we recommend**

We reaffirm our Outperform (2) rating for Mando and DCF/PER based six-month target price of KRW135,000. We believe the earnings visibility for the company for 2014 is good, but expect its share price to be range-bound until the special shareholders' meeting, scheduled for 28 July, to approve its spin off. One-third of shareholders need to attend the meeting for a vote to take place. Of this, two-thirds need to agree to the spin-off for the deal go through.

Although Mando's largest shareholder (Halla Corp) holds a 17.3% stake, this is substantially below the 33% level required for the special shareholders' meeting to take place. We believe Mando will be spun off and have thus factored this into our model. The main risk to our view would be greater-than-expected pricing pressure from OEMs.

■ **How we differ**

Our 2014-15E EPS are 13-18% above those of the Bloomberg consensus,

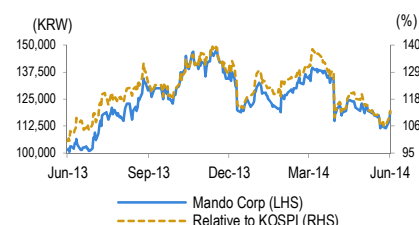
as we are more bullish on Mando's earnings prospects in China and Korea.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	100,500-147,500
Market cap (USDbn)	2.13
3m avg daily turnover (USDm)	17.77
Shares outstanding (m)	18
Major shareholder	Halla Corp (17.3%)

Financial summary (KRW)

Year to 31 Dec	14E	15E	16E
Revenue (bn)	6,182	7,002	7,934
Operating profit (bn)	378	456	524
Net profit (bn)	273	329	384
Core EPS (fully-diluted)	14,993	18,072	21,062
EPS change (%)	53.7	20.5	16.5
Daiwa vs Cons. EPS (%)	12.8	18.4	19.5
PER (x)	7.9	6.6	5.6
Dividend yield (%)	0.8	0.8	0.8
DPS	1,000	1,000	1,000
PBR (x)	1.1	0.9	0.8
EV/EBITDA (x)	5.0	4.1	3.5
ROE (%)	14.6	15.1	15.2

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Global new orders (KRW bn)	4,328.0	4,877.0	6,100.0	6,000.0	7,500.0	8,500.0	8,800.0	9,100.0
New orders from HMG (KRW bn)	3,029.6	2,048.3	2,855.0	1,920.0	3,700.0	3,825.0	3,872.0	4,004.0
New orders from China local OEMs (KRW bn)	129.8	341.4	874.0	1,020.0	1,448.0	1,615.0	1,848.0	1,911.0
New orders from GM (KRW bn)	692.5	1,414.3	1,738.0	1,620.0	1,029.0	1,275.0	1,496.0	1,547.0
Revenue from Korea (KRW bn)	1,827.1	2,457.9	3,242.3	3,613.2	3,819.2	4,058.6	4,534.5	4,987.2
Revenue from China (KRW bn)	627.2	754.9	927.3	1,131.1	1,314.8	1,492.7	1,732.1	2,078.5
Revenue from US (KRW bn)	490.9	876.2	971.3	1,037.3	1,160.7	1,328.3	1,474.4	1,636.6

■ Profit and loss (KRWbn)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Korea Revenues	1,827	2,458	3,242	3,613	3,819	4,059	4,535	4,987
China Revenues	627	755	927	1,131	1,315	1,493	1,732	2,078
Other Revenue	273	411	391	315	502	631	736	868
Total Revenue	2,727	3,624	4,560	5,059	5,636	6,182	7,002	7,934
Other income	14	15	13	16	21	23	25	28
COGS	(2,302)	(3,031)	(3,893)	(4,352)	(4,820)	(5,343)	(6,038)	(6,825)
SG&A	(248)	(331)	(367)	(451)	(501)	(461)	(509)	(585)
Other op. expenses	(14)	(15)	(13)	(16)	(21)	(23)	(25)	(28)
Operating profit	177	262	300	256	315	378	456	524
Net-interest inc./exp.)	(25)	(7)	(9)	(24)	(33)	(37)	(43)	(49)
Assoc/forex/extraord./others	(19)	0	(17)	(23)	(64)	7	3	10
Pre-tax profit	132	255	275	208	218	348	417	486
Tax	(23)	(60)	(50)	(46)	(41)	(75)	(87)	(102)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	109	195	225	162	178	273	329	384
Net profit (adjusted)	109	195	225	162	178	273	329	384
EPS (reported)(KRW)	9,248	11,333	12,356	8,897	9,756	14,993	18,072	21,062
EPS (adjusted)(KRW)	9,248	11,333	12,356	8,897	9,756	14,993	18,072	21,062
EPS (adjusted fully-diluted)(KRW)	9,248	11,333	12,356	8,897	9,756	14,993	18,072	21,062
DPS (KRW)	0	1,000	1,250	1,000	1,000	1,000	1,000	1,000
EBIT	177	262	300	256	315	378	456	524
EBITDA	269	386	455	442	488	568	670	766

■ Cash flow (KRWbn)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	132	255	275	208	218	348	417	486
Depreciation and amortisation	92	124	155	186	173	190	214	242
Tax paid	(23)	(60)	(50)	(46)	(41)	(75)	(87)	(102)
Change in working capital	(65)	32	(158)	3	172	(12)	(110)	(171)
Other operational CF items	227	13	95	(198)	(61)	(109)	(106)	(102)
Cash flow from operations	364	364	317	153	462	342	328	353
Capex	(115)	(258)	(400)	(490)	(380)	(350)	(350)	(350)
Net (acquisitions)/disposals	(28)	(43)	(68)	(134)	(289)	(16)	(17)	(18)
Other investing CF items	(4)	(9)	13	(31)	(24)	40	41	41
Cash flow from investing	(148)	(310)	(455)	(655)	(693)	(326)	(326)	(327)
Change in debt	(119)	(271)	402	404	100	(95)	(77)	(61)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(6)	(0)	(18)	(22)	(18)	(18)	(18)	(18)
Other financing CF items	32	166	(33)	(2)	(36)	103	104	68
Cash flow from financing	(93)	(105)	351	380	46	(10)	9	(12)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	123	(51)	212	(122)	(185)	6	11	14
Free cash flow	248	106	(83)	(337)	82	(8)	(22)	3

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ **Balance sheet (KRWbn)**

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	223	165	374	283	379	392	410	431
Inventory	224	275	351	420	375	430	486	569
Accounts receivable	635	764	995	1,107	971	1,082	1,225	1,411
Other current assets	15	20	80	126	132	66	69	73
Total current assets	1,097	1,224	1,800	1,936	1,857	1,971	2,191	2,484
Fixed assets	960	1,096	1,375	1,664	1,911	2,099	2,225	2,289
Goodwill & intangibles	58	65	79	105	110	115	121	127
Other non-current assets	98	128	182	330	380	441	515	606
Total assets	2,214	2,512	3,435	4,035	4,258	4,626	5,052	5,505
Short-term debt	136	98	251	337	354	372	390	410
Accounts payable	590	757	1,012	1,076	1,162	1,255	1,355	1,463
Other current liabilities	70	99	108	98	88	79	72	64
Total current liabilities	796	954	1,372	1,511	1,604	1,706	1,817	1,938
Long-term debt	355	118	423	732	816	703	607	526
Other non-current liabilities	173	190	229	224	97	206	291	322
Total liabilities	1,323	1,262	2,025	2,467	2,517	2,615	2,715	2,786
Share capital	81	91	91	91	91	91	91	91
Reserves/R.E./others	810	1,158	1,320	1,476	1,650	1,920	2,247	2,628
Shareholders' equity	891	1,249	1,411	1,567	1,741	2,011	2,338	2,720
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	2,214	2,512	3,435	4,035	4,258	4,626	5,052	5,505
EV	2,434	2,219	2,468	2,954	2,958	2,850	2,755	2,672
Net debt/(cash)	267	52	300	786	791	682	587	505
BVPS (KRW)	55,179	68,583	77,457	86,052	95,591	110,405	128,341	157,983

■ **Key ratios (%)**

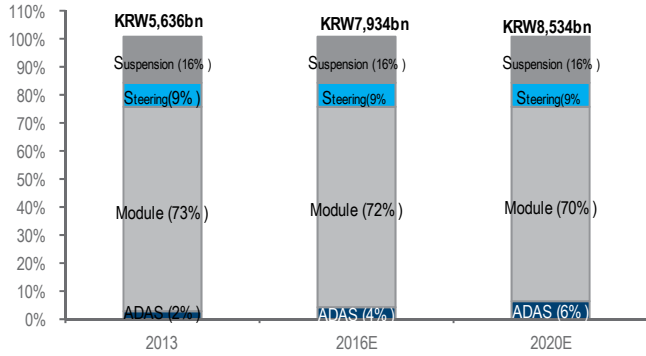
Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	73.2	32.9	25.8	10.9	11.4	9.7	13.3	13.3
EBITDA (YoY)	141.8	43.8	17.8	(2.9)	10.5	16.3	18.0	14.3
Operating profit (YoY)	612.2	48.0	14.8	(14.8)	23.0	20.1	20.5	14.9
Net profit (YoY)	164.3	78.5	15.6	(28.0)	9.7	53.7	20.5	16.5
Core EPS (fully-diluted) (YoY)	66.9	22.5	9.0	(28.0)	9.7	53.7	20.5	16.5
Gross-profit margin	15.6	16.4	14.6	14.0	14.5	13.6	13.8	14.0
EBITDA margin	9.8	10.7	10.0	8.7	8.7	9.2	9.6	9.7
Operating-profit margin	6.5	7.2	6.6	5.1	5.6	6.1	6.5	6.6
Net profit margin	4.0	5.4	4.9	3.2	3.2	4.4	4.7	4.8
ROAE	13.1	18.2	16.9	10.9	10.7	14.6	15.1	15.2
ROAA	5.8	8.2	7.6	4.3	4.3	6.1	6.8	7.3
ROCE	14.2	18.4	16.9	10.8	11.3	12.6	14.2	15.0
ROIC	13.5	16.3	16.4	9.8	10.5	11.3	12.8	13.5
Net debt to equity	30.0	4.2	21.3	50.2	45.4	33.9	25.1	18.6
Effective tax rate	17.5	23.6	18.0	22.2	18.6	21.6	21.0	21.0
Accounts receivable (days)	69.4	70.5	70.4	75.8	67.3	60.6	60.1	60.6
Current ratio (x)	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.3
Net interest cover (x)	7.0	36.3	34.9	10.5	9.6	10.1	10.7	10.7
Net dividend payout	0.0	8.8	10.1	11.2	10.3	6.7	5.5	4.7
Free cash flow yield	11.4	4.9	n.a.	n.a.	3.8	n.a.	n.a.	0.1

Source: FactSet, Daiwa forecasts

■ **Company profile**

Mando Corporation is Korea's second-largest auto-parts manufacturer by sales and produces suspension, steering, brake systems and other parts. Mando has one of the most diversified global customer bases among the Korea component makers and generated 49% of its 2013 consolidated sales from non-Korean automakers. Mando was established on 1 October 1962 as a subsidiary of the Halla Group and was acquired by Sun Sage during the Asian Crisis in the late 1990s. It was bought back by Halla's engineering and construction consortium in 2008 and listed on the Korea Stock Exchange on 19 May 2010.

■ **Mando: revenue breakdown by product (2013-20)**



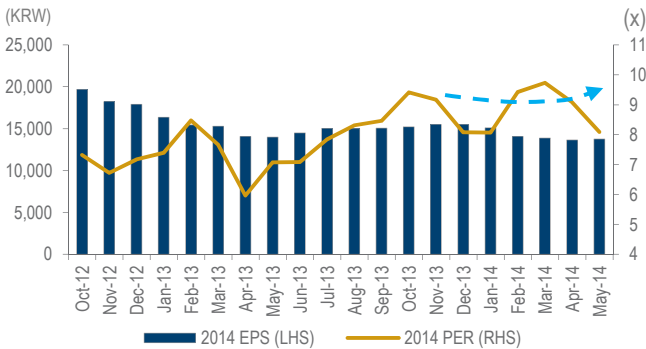
Source: Company, Daiwa

■ **Mando: major assumptions for ADAS products**

	2013E	2016E	2020E
Auto revenue from HMG+GM (KRWbn)	379,500	464,500	551,490
HMG+GM shipment('000)	16,863	18,128	19,500
HMG+GM ASP ('000KRW)	22,505	25,623	28,282
Adoption rate of ADAS (%)	1.1	2	2.8
Content per vehicle (KRW)	247,554	512,467	791,883
Mando's share of business with HMG (%)	30	30	30
Mando's share of business with GM (%)	8	8	8
ADAS revenue for Mobis (KRWbn)	134	315	537
Total revenue (KRWbn)	5,636	7,934	8,534
Revenue proportion of ADAS (%)	2%	4%	6%

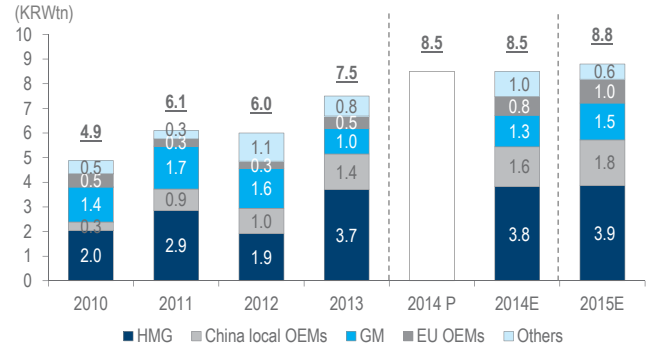
Source: Company, Daiwa forecasts

■ **Mando: consensus 2014 EPS forecast and PER**



Source: Company, Bloomberg

■ **Mando: new orders**



Source: Company, Daiwa forecasts

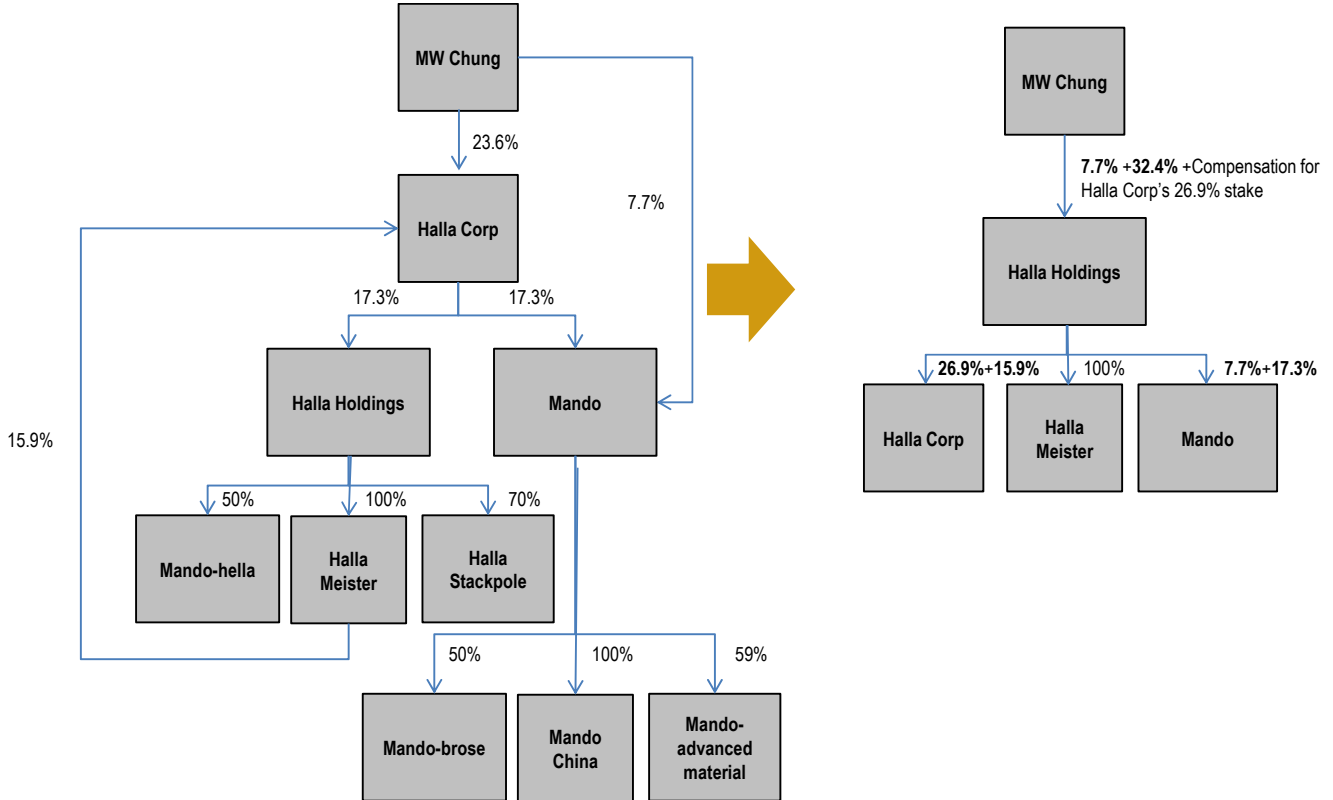
Note: P = company's target, E = Daiwa forecasts

■ **Mando: DCF valuation**

	Unit	
DCF		
Discounted NPV value	(KRWbn)	1,676
PV terminal value	(KRWbn)	1,466
Net cash/(debt)	(KRWbn)	(682)
Value of equity	(KRWbn)	2,460
No. of shares	(m shares)	18.2
Fair value	(KRW)	135,067
Target PER		
Target PER	(x)	9.0
2014 EPS forecast	(KRW)	14,993
Fair value	(KRW)	134,933
Target price	(KRW)	135,000

Source: Company, Daiwa

■ Changes to Halla group's holding structure: after potential spin-off of Mando into 2 entities



Source: Company, Daiwa

Note: our assumptions:

- 1) Market cap for Halla Holdings of KRW473bn, market cap for new Mando of KRW1,987bn based on: 1) our 2014E net profit forecast of KRW273bn, and 2) considering a spin-off ratio of 0.5217 shares and 0.4782 shares for Mando (operating company) and Halla Holdings (investment company), respectively.
- 2) MW Chung swaps 1 new Mando shares for 4.2 shares in Halla Holdings, based on the above spin-off ratio.

Action plan

- 1) MW Chung participates in a capital increase of Halla Holdings by exchanging his Mando stake (7.7%, we estimate possibly worth KRW153bn) and receives a 32.4% stake in Halla Holdings.
- 2) Halla Holdings buys back stakes of Mando in cash from Halla Corp (17.3% for KRW344bn, or KRW244bn if it buys back only a 12.3% stake to meet the requirement for a holding company).
- 3) Halla corp sells its stake in Halla holdings to MW Chung or to a third party (17.3%, KRW82bn).
- 4) Halla Meister sells its stake in Halla corp to Halla holdings (15.9%, KRW36bn)

SL Corp

005850 KS

Leading auto lamp maker developing ADAS products

- SL Corp sees earnings-growth potential from its customer base diversification beyond Hyundai Motor Group
- It expects to be a major beneficiary of rising adoption of advanced driver assistance system (ADAS) products
- The stock is trading near the low end of its past-3-year average PER and EV/EBITDA multiple ranges

Target (KRW): **n.a.**

Up/downside: -

10 Jun price (KRW): **21,250**

■ Not Rated



Sung Yop Chung

(82) 2 787 9157

sychung@kr.daiwacm.com

■ **Background**

SL Corp (SL) is an auto-parts maker specialising in lamps and chassis products. The company is Korea's largest maker of auto lamps in terms of shipments, with a 60% market share of shipments to Hyundai Motor Group (HMG, unrated). SL Corp expects to generate strong earnings growth over the next several years, bolstered by: 1) diversifying its customer base to companies that are not related to HMG, including General Motors (GM), and 2) its development of advanced driver assistance (ADAS) products.

■ **Highlights**

Diversification of its customer base by expanding sales to GM.

SL has diversified its order book in recent years, steadily increasing the revenue contribution from GM to 37.3% for 2013, from 35.2% back in 2010. The company sees the potential for its revenue proportion from OEMs outside the HMG group

to rise in the years ahead, and expects its revenue derived from GM to increase by 11.8% YoY to KRW659.4bn for 2014 (from KRW463.3bn in 2010). It also expects its top-line growth momentum to be prolonged with the launch of GM's new Cruze model scheduled for 2015.

Regarding its core business of auto lamps, SL has developed adaptive front lighting systems (AFLS) and dynamic high beams (DHB), which allow for optimal lighting conditions by adjusting the lamp angle.

Broadening its portfolio with ADAS products

In an effort to diversify its product portfolio and improve its long-term profitability, SL has recently completed developments of high value-added ADAS products. These include a head-up display (HUD), and an around view monitoring (AVM) system. Its ADAS products are currently installed in a limited number of upscale passenger and commercial vehicle models, but Korean automakers are gradually expanding the applications of these products.

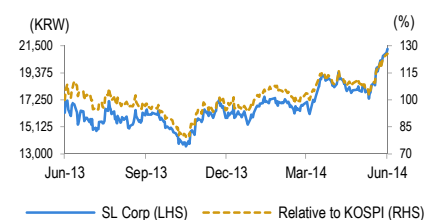
Given that Hyundai Mobis and Mando have also developed similar ADAS products, SL estimates that it will not be able to capture a dominant

market share of ADAS product supplies to HMG. As such, the company plans to focus more on global OEMs, including GM, to secure a customer base for its ADAS products. It expects to generate about 7% of its revenue from ADAS products by 2020.

■ **Valuation**

Based on the Bloomberg-consensus earnings forecasts for 2014, SL Corp is trading currently at a PER of 8.8x and an EV/EBITDA multiple of 7.4x. These multiples compare with its past-3-year PER range of 6.5-14.0x (average of 9.5x) and EV/EBITDA multiple range of 6.8-13.8x (average of 8.4x). Its Korea small-cap auto-parts peer group is trading at average 2014E PER and EV/EBITDA multiples of 7.4x and 4.8x, respectively, based on the consensus forecasts.

Share price performance



12-month range	13,600.00-21,250.00
Market cap (USDbn)	0.71
3m avg daily turnover (USDm)	1.96

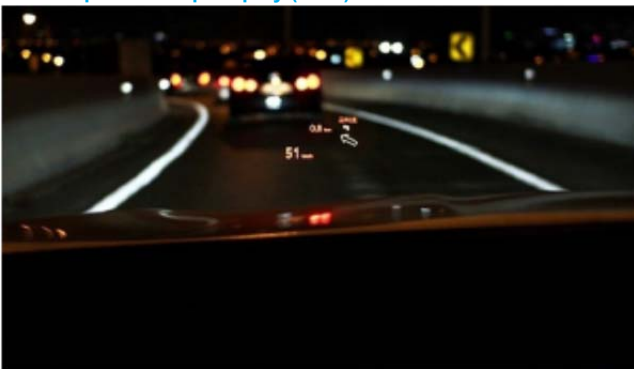
Source: FactSet, Daiwa

■ **SL Corp: major assumptions for its ADAS products**

	2013	2016E	2020E
Auto revenue for HMG (KRWbn)	151,800	185,800	220,596
Shipments ('000 units)	7,363	8,628	10,000
ASP ('000 KRW)	20,617	21,535	22,060
Adoption rate of ADAS products (%)	1	2	2
CPV (KRW)	247,400	344,553	397,073
ADAS market share with HMG (%)	1	1.5	2
Revenue from ADAS products (KRWbn)	18.2	59.5	119.1
Total revenue (KRWbn)	1,242	1,520	1,804
Revenue proportion from ADAS products (%)	1%	4%	7%

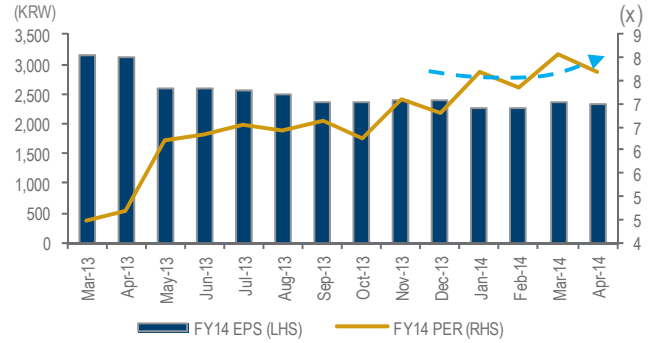
Source: Company, Bloomberg

■ **SL Corp: heads-up display (HUD)**



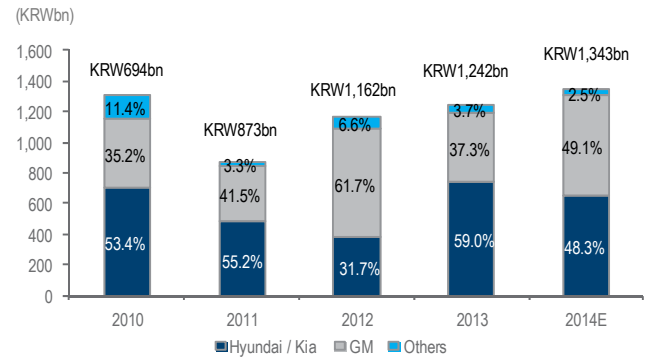
Source: Company

■ **SL Corp: trend in consensus EPS and PER**



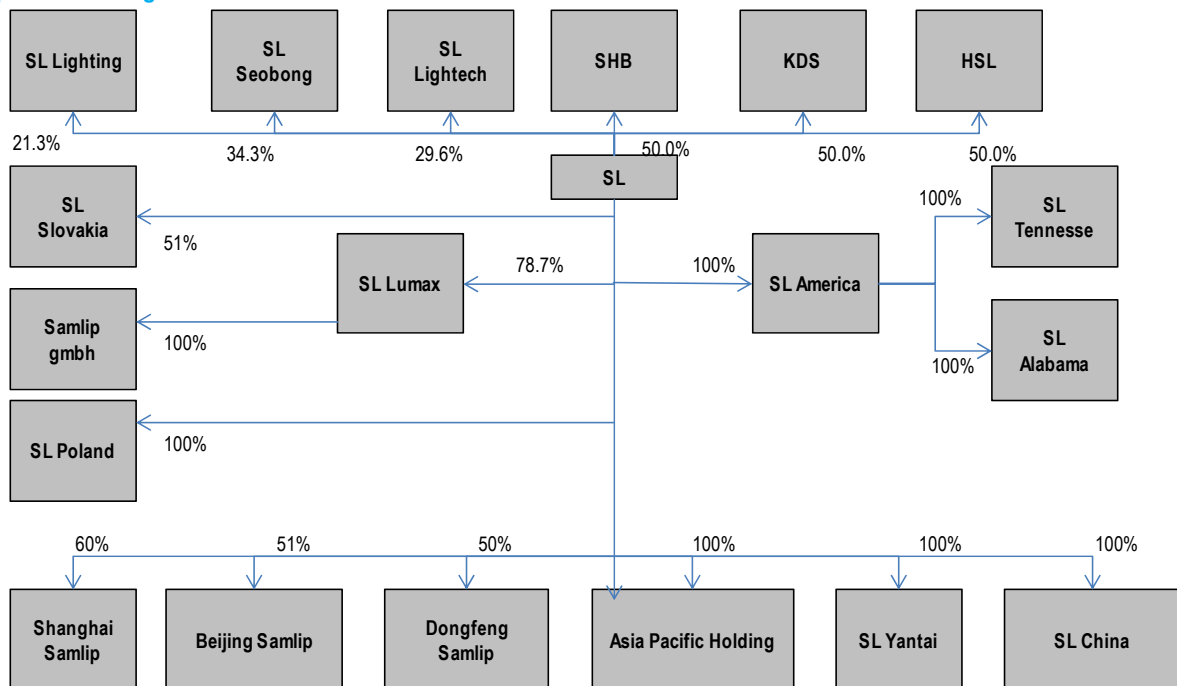
Source: Company, Bloomberg

■ **SL Corp: revenue breakdown by customer**



Source: Company, Bloomberg consensus for 2014E

■ **SL Corp: shareholding structure**



Source: DART, Company

Daiwa's Asia Pacific Research Directory

HONG KONG		
Hiroaki KATO	(852) 2532 4121	hiroaki.kato@hk.daiwacm.com
<i>Regional Research Head</i>		
John HETHERINGTON	(852) 2773 8787	john.hetherington@hk.daiwacm.com
<i>Regional Deputy Head of Asia Pacific Research</i>		
Rohan DALZIELL	(852) 2848 4938	rohan.dalziell@hk.daiwacm.com
<i>Regional Head of Product Management</i>		
Kevin LAI	(852) 2848 4926	kevin.lai@hk.daiwacm.com
<i>Deputy Head of Regional Economics; Macro Economics (Regional)</i>		
Christie CHIEN	(852) 2848 4482	christie.chien@hk.daiwacm.com
<i>Macro Economics (Taiwan)</i>		
Jonas KAN	(852) 2848 4439	jonas.kan@hk.daiwacm.com
<i>Head of Hong Kong Research; Head of Hong Kong and China Property</i>		
Jerry YANG	(852) 2773 8842	jerry.yang@hk.daiwacm.com
<i>Banking (Taiwan); Insurance (Taiwan and China)</i>		
Leon QI	(852) 2532 4381	leon.qi@hk.daiwacm.com
<i>Banking (Hong Kong, China); Broker (China)</i>		
Alison LAW	(852) 2532 4308	alison.law@hk.daiwacm.com
<i>Head of Regional Consumer; Consumer (Hong Kong/China); Gaming and Leisure (Hong Kong, China)</i>		
Jamie SOO	(852) 2773 8529	jamie.soo@hk.daiwacm.com
<i>Consumer (Hong Kong/China)</i>		
Anson CHAN	(852) 2532 4350	anson.chan@hk.daiwacm.com
<i>Consumer (Hong Kong/China)</i>		
Eric CHEN	(852) 2773 8702	eric.chen@hk.daiwacm.com
<i>Pan-Asia/Regional Head of IT/Electronics; Semiconductor/IC Design (Regional)</i>		
Lynn CHENG	(852) 2773 8822	lynn.cheng@hk.daiwacm.com
<i>IT/Electronics (Semiconductor)</i>		
Felix LAM	(852) 2532 4341	felix.lam@hk.daiwacm.com
<i>Head of Materials (Hong Kong, China); Cement and Building Materials (China, Taiwan); Property (China)</i>		
Dennis IP	(852) 2848 4068	dennis.ip@hk.daiwacm.com
<i>Power; Utilities; Renewables and Environment (Hong Kong/China)</i>		
John CHOI	(852) 2773 8730	john.choi@hk.daiwacm.com
<i>Regional Head of Small/Mid Cap; Small/Mid Cap (Regional); Internet (China)</i>		
Jackson YU	(852) 2848 4976	jackson.yu@hk.daiwacm.com
<i>Small/Mid Cap (Regional)</i>		
Joey CHEN	(852) 2848 4483	joey.chen@hk.daiwacm.com
<i>Steel (China)</i>		
Kelvin LAU	(852) 2848 4467	kelvin.lau@hk.daiwacm.com
<i>Head of Transportation (Hong Kong, China); Transportation (Regional)</i>		
Jibo MA	(852) 2848 4489	jibo.ma@hk.daiwacm.com
<i>Head of Custom Products Group; Custom Products Group</i>		
Thomas HO	(852) 2773 8716	thomas.ho@hk.daiwacm.com
<i>Custom Products Group</i>		

SOUTH KOREA		
Chang H LEE	(82) 2 787 9177	chlee@kr.daiwacm.com
<i>Head of Korea Research; Strategy; Banking</i>		
Sung Yop CHUNG	(82) 2 787 9157	sychung@kr.daiwacm.com
<i>Pan-Asia Co-head/Regional Head of Automobiles and Components; Automobiles; Shipbuilding; Steel</i>		
Jun Yong BANG	(82) 2 787 9168	junyong.bang@kr.daiwacm.com
<i>Tyres; Chemicals</i>		
Mike OH	(82) 2 787 9179	mike.oh@kr.daiwacm.com
<i>Capital Goods (Construction and Machinery)</i>		
Sang Hee PARK	(82) 2 787 9165	sanghee.park@kr.daiwacm.com
<i>Consumer/Retail</i>		
Thomas Y KWON	(82) 2 787 9181	yskwon@kr.daiwacm.com
<i>Pan-Asia Head of Internet & Telecommunications; Software (Korea) – Internet/On-line Game</i>		

TAIWAN		
Mark CHANG	(886) 2 8758 6245	mark.chang@daiwacm-cathay.com.tw
<i>Head of Taiwan Research</i>		
Steven TSENG	(886) 2 8758 6252	steven.tseng@daiwacm-cathay.com.tw
<i>IT/Technology Hardware (PC Hardware)</i>		
Christine WANG	(886) 2 8758 6249	christine.wang@daiwacm-cathay.com.tw
<i>IT/Technology Hardware (Automation); Cement; Consumer</i>		
Kylie HUANG	(886) 2 8758 6248	kylie.huang@daiwacm-cathay.com.tw
<i>IT/Technology Hardware (Handsets and Components)</i>		

INDIA		
Punit SRIVASTAVA	(91) 22 6622 1013	punit.srivastava@in.daiwacm.com
<i>Head of India Research; Strategy; Banking/Finance</i>		
Saurabh MEHTA	(91) 22 6622 1009	saurabh.mehta@in.daiwacm.com
<i>Capital Goods; Utilities</i>		

SINGAPORE		
Adrian LOH	(65) 6499 6548	adrian.loh@sg.daiwacm.com
<i>Head of Singapore Research, Regional Head of Oil and Gas; Oil and Gas (ASEAN and China); Capital Goods (Singapore)</i>		
Benjamin LIM	(65) 6321 3086	benjamin.lim@sg.daiwacm.com
<i>Oil and Gas (ASEAN and China); Capital Goods (Singapore)</i>		
Angeline LOH	(65) 6499 6570	angeline.loh@sg.daiwacm.com
<i>Banking/Finance, Consumer/Retail</i>		
David LUM	(65) 6329 2102	david.lum@sg.daiwacm.com
<i>Property and REITs</i>		
Evon TAN	(65) 6499 6546	evon.tan@sg.daiwacm.com
<i>Property and REITs</i>		
Ramakrishna MARUVADA	(65) 6499 6543	ramakrishna.maruvada@sg.daiwacm.com
<i>Head of ASEAN & India Telecommunications; Telecommunications (China, ASEAN & India)</i>		
Jame OSMAN	(65) 6321 3092	jame.osman@sg.daiwacm.com
<i>Telecom (ASEAN & India); Pharmaceuticals and Healthcare (Singapore)</i>		

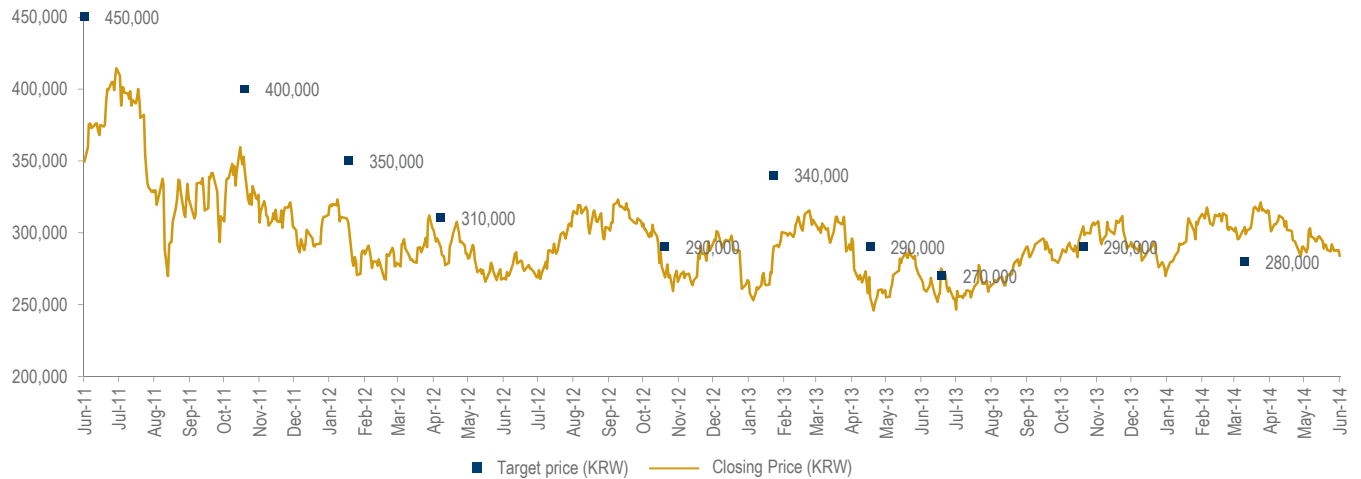
Daiwa's Offices

Office / Branch / Affiliate	Address	Tel	Fax
DAIWA SECURITIES GROUP INC			
HEAD OFFICE			
	Gran Tokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6753	(81) 3 5555 3111	(81) 3 5555 0661
Daiwa Securities Trust Company	One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.	(1) 201 333 7300	(1) 201 333 7726
Daiwa Securities Trust and Banking (Europe) PLC (Head Office)	5 King William Street, London EC4N 7JB, United Kingdom	(44) 207 320 8000	(44) 207 410 0129
Daiwa Europe Trustees (Ireland) Ltd	Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland	(353) 1 603 9900	(353) 1 478 3469
<hr/>			
Daiwa Capital Markets America Inc	Financial Square, 32 Old Slip, New York, NY10005, U.S.A.	(1) 212 612 7000	(1) 212 612 7100
Daiwa Capital Markets America Inc. San Francisco Branch	555 California Street, Suite 3360, San Francisco, CA 94104, U.S.A.	(1) 415 955 8100	(1) 415 956 1935
Daiwa Capital Markets Europe Limited	5 King William Street, London EC4N 7AX, United Kingdom	(44) 20 7597 8000	(44) 20 7597 8600
Daiwa Capital Markets Europe Limited, Frankfurt Branch	Trianon Building, Mainzer Landstrasse 16, 60325 Frankfurt am Main, Federal Republic of Germany	(49) 69 717 080	(49) 69 723 340
Daiwa Capital Markets Europe Limited, Paris Representative Office	36, rue de Naples, 75008 Paris, France	(33) 1 56 262 200	(33) 1 47 550 808
Daiwa Capital Markets Europe Limited, London, Geneva Branch	50 rue du Rhône, P.O.Box 3198, 1211 Geneva 3, Switzerland	(41) 22 818 7400	(41) 22 818 7441
Daiwa Capital Markets Europe Limited, Moscow Representative Office	Midland Plaza 7th Floor, 10 Arbat Street, Moscow 119002, Russian Federation	(7) 495 641 3416	(7) 495 775 6238
Daiwa Capital Markets Europe Limited, Bahrain Branch	7th Floor, The Tower, Bahrain Commercial Complex, P.O. Box 30069, Manama, Bahrain	(973) 17 534 452	(973) 17 535 113
Daiwa Capital Markets Hong Kong Limited	Level 28, One Pacific Place, 88 Queensway, Hong Kong	(852) 2525 0121	(852) 2845 1621
Daiwa Capital Markets Singapore Limited	6 Shenton Way #26-08, DBS Building Tower Two, Singapore 068809, Republic of Singapore	(65) 6220 3666	(65) 6223 6198
Daiwa Capital Markets Australia Limited	Level 34, Rialto North Tower, 525 Collins Street, Melbourne, Victoria 3000, Australia	(61) 3 9916 1300	(61) 3 9916 1330
DBP-Daiwa Capital Markets Philippines, Inc	18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo Village, Makati City, Republic of the Philippines	(632) 813 7344	(632) 848 0105
Daiwa-Cathay Capital Markets Co Ltd	14/F, 200, Keelung Road, Sec 1, Taipei, Taiwan, R.O.C.	(886) 2 2723 9698	(886) 2 2345 3638
Daiwa Securities Capital Markets Korea Co., Ltd.	One IFC, 10 Gukjegeumyung-Ro, Yeouido-dong, Yeongdeungpo-gu, Seoul, 150-876, Korea	(82) 2 787 9100	(82) 2 787 9191
Daiwa Securities Capital Markets Co Ltd, Beijing Representative Office	Room 301/302, Kerry Center, 1 Guanghua Road, Chaoyang District, Beijing 100020, People's Republic of China	(86) 10 6500 6688	(86) 10 6500 3594
Daiwa SSC Securities Co Ltd	45/F, Hang Seng Tower, 1000 Lujiazui Ring Road, Pudong, Shanghai 200120, People's Republic of China	(86) 21 3858 2000	(86) 21 3858 2111
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Share price and Daiwa recommendation trend

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

Date	Target price	Rating	Date	Target price	Rating	Date	Target price	Rating
27/01/12	350,000	Outperform	27/10/12	290,000	Hold	29/10/13	290,000	Hold
16/04/12	310,000	Hold	01/02/13	340,000	Buy	19/03/14	280,000	Hold
12/07/12	310,000	Outperform	26/04/13	290,000	Outperform			
27/08/12	310,000	Hold	28/06/13	270,000	Hold			



Source: Daiwa

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

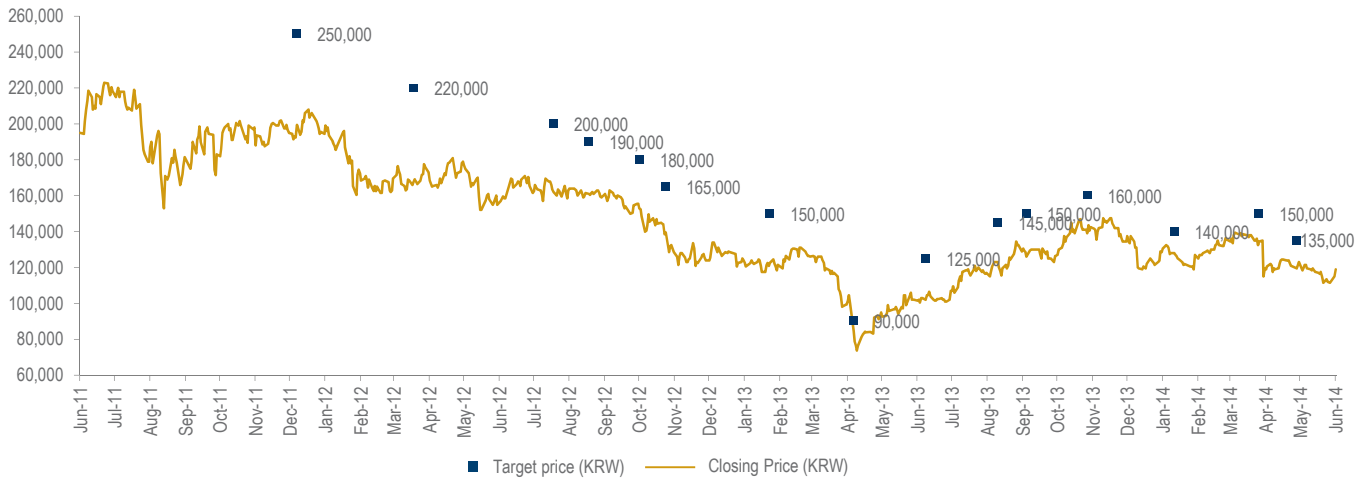
Date	Target price	Rating	Date	Target price	Rating	Date	Target price	Rating
05/01/12	300,000	Buy	14/01/13	290,000	Buy	24/10/13	320,000	Buy
09/04/12	330,000	Buy	02/04/13	270,000	Buy	13/01/14	290,000	Buy
08/10/12	310,000	Buy	27/09/13	300,000	Buy	17/02/14	310,000	Buy



Source: Daiwa

■ Mando Corp: share price and Daiwa recommendation trend

Date	Target price	Rating	Date	Target price	Rating	Date	Target price	Rating
16/12/11	250,000	Buy	02/11/12	165,000	Buy	13/09/13	150,000	Buy
27/03/12	220,000	Buy	01/02/13	150,000	Buy	05/11/13	160,000	Buy
27/07/12	200,000	Buy	15/04/13	90,000	Hold	20/01/14	140,000	Outperform
27/08/12	190,000	Buy	17/06/13	125,000	Buy	04/04/14	150,000	Outperform
10/10/12	180,000	Buy	19/08/13	145,000	Buy	07/05/14	135,000	Outperform



Source: Daiwa

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