

Autos

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Hyundai Motor (005380)

Rating: BUY

➤ Closing price: W69,000 (June 5, 2007) ➤ Price target: W83,000

TP raised 6.4% on higher domestic sales estimates

- Price target raised to W83,000:** Taking into account rapidly recovering domestic sales, we raised our domestic sales volume forecasts to 637K units (+9.7% YoY) in FY07 and 672K (+5.5% YoY) in FY08 from 619K and 652K, respectively. Incorporating the higher sales estimate, we raise our FY07F and 08F EPS by 3.3% and 3%, respectively. We maintain BUY and raise our six-month price target by 6.4% to W83,000. The upward revision to the price target is also due to the fact that we changed the target PER to 11x FY08F PER from the previous 12x FY07F PER. Meanwhile, the counter is likely to suffer from a correction period due to expected market jitters over KORUS FTA-related strikes (slated for end-June). The delayed wage and collective bargaining negotiation is likely to start in early-July. However, as the counter remains at the low end of its historical valuation, the price correction should be limited, we believe.
- HMC leads the market:** The total Korean market rebounded by 8.2% YoY in 5M07, and Hyundai Motors's (HMC) domestic sales posted slightly lower-than-average growth of 7.2% YoY. However, since April, the company has been leading the market recovery amid the sustained strong sales of its new fuel efficient Avante (13.8km per liter). In May, HMC's domestic sales jumped 19.1% YoY, compared with the industry's 12.1% YoY growth. Moreover, with the addition of the new Starex van on May 25, we believe HMC will maintain its leading position going forward. We have also revised up the industry's demand estimate to 1.26mn (up 8% YoY) units in 2007 and 1.33 (up 6% YoY) in 2008 from the previous 1.23 and 1.3, respectively.
- Growing expectations on VDS:** HMC continues to win accolades from US auto magazines and consumer publications. Motor Trend's comment on the Genesis, the BH (Dynasty replacement) concept car, was "Even BMW and Mercedes-Benz are going to pay attention," in March, and raised the Veracruz hand over the Lexus' RX350 in its July edition. In addition, on June 4 HMC won more segment leader awards (with the Azera, Santa Fe, and Entourage) of any automotive manufacturer, in Strategic Vision's 2007 Total Quality Index (TQI), which measures total vehicle satisfaction among new car owners. In the Consumer Reports' '2007 Car Reliability Survey', HMC jumped from 13th in 2006 to 7th out of a total of 36 brands in the US market. We believe this series of positive reports from American motor experts and consumers brighten HMC's durability outlook, which is still marginally inferior to the industry average. We think that as its IQS (Initial Quality Study) jumped to 7th in 2004 from 23rd in 2003, HMC's 2007 VDS (Vehicle Dependability Study) is highly likely to reveal a remarkable improvement.

June 5, 2007 / W69,000 / Mkt cap: USD19,007mn, KRW17,618bn

Yr to	Sales	OP	RP	NP	EPS	%chg	EBITDA	P/E	EV/EBITDA	PBR	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(Won)	(YoY)	(W bn)	(x)	(x)	(x)	(%)
2005A	27,383.7	1,384.1	2,739.1	2,348.7	8,275	34.4	2,339.4	8.3	5.9	1.3	16.8
2006A	27,335.4	1,234.4	1,885.9	1,526.1	5,368	-35.1	2,330.5	12.9	6.4	1.2	9.8
2007F	29,368.3	1,569.5	2,441.9	1,916.9	6,734	25.4	2,732.4	10.2	5.1	1.1	11.3
2008F	30,995.6	1,754.3	2,736.7	2,148.3	7,547	12.1	2,703.4	9.1	5.0	1.0	11.5
2009F	32,681.7	1,929.8	3,025.6	2,375.1	8,343	10.6	2,907.9	8.3	4.5	0.9	11.5

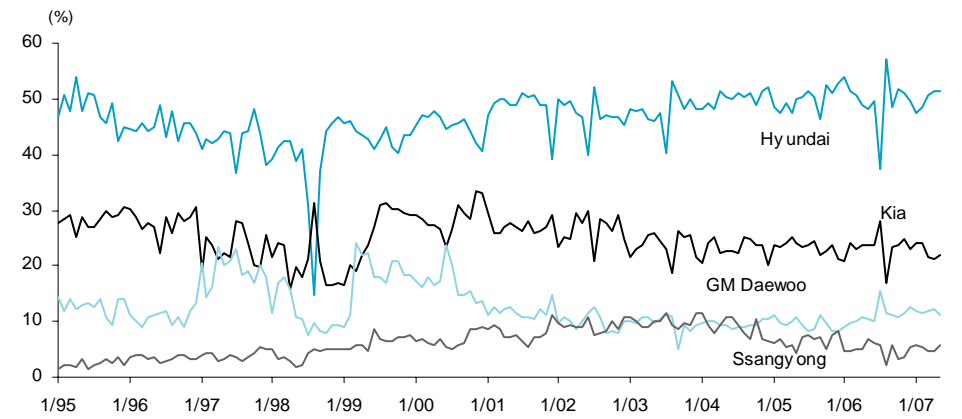
Source: Company data, Korea Investment & Securities estimates

New model launches and models in the pipeline (domestic market)

	2005				2006				2007			2008			
	1Q	2Q	3Q	4Q	1Q	2Q	4Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Hyundai Motor	TG (Grandeur, XG replace, 5/18)	MC (Verna replace, 9/14)	CM (Santa Fe replace, 11/22)		HD (Avante replace, 6/19)	EN (Veracruz luxury sport wagon, 10/12)		TQ (Starex 2.0L Santa Fe, June)	i30 (FD, HD hatchback, July)	NF facelift (Nov)	BH (Dynasty replace)		BK (Tuscani replace, 2H08)	VI (Equus replace)	
Kia		Pride (Rio replace, 4/7)	VQ (Carnival replace, 7/14)	Lotze (Optima replace, 11/10)	Sorento facelift, 4/3	UN (Carens replace, 5/16) Opus facelift (6/20) Cerato facelift (6/22)				HM (midsize SUV, Oct) Morning facelift (Dec)		AM (compact crossover, June)	TD (Cerato replace, Sept)	VG (luxury sedan - TG segment)	
GM Daewoo	New Matiz (Matiz replace, 2/21)	Statesman (luxury sedan, 6/5)	Genia (Kalos replace, 9/8)		TOSCA (Magnus replace, 1/18)	Winstorm (compact SUV, 7/3)				new Statesman				new Lacetti new Matiz	
Ssangyong		Kyron (Musso replace, 6/8)		Actyon (Korando replace, 10/13)		Actyon Sports (Musso SUT replace, 4/27)				W200 (Chairman replace)					
Renault Samsung	New SM5 (SM5 replace, 1/25)		SM3 facelift (8/24)							H45 (compact SUV)					

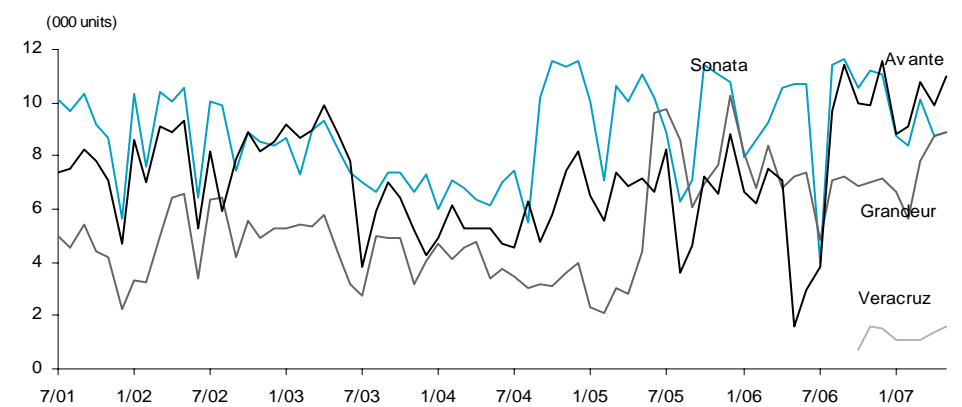
Source: Respective company data, Korea Investment & Securities estimates

Domestic market share



Source: Korea Automobile Manufacturers Association (KAMA), Korea Investment & Securities

Avante, Grandeur, Sonata and Veracruz domestic sales



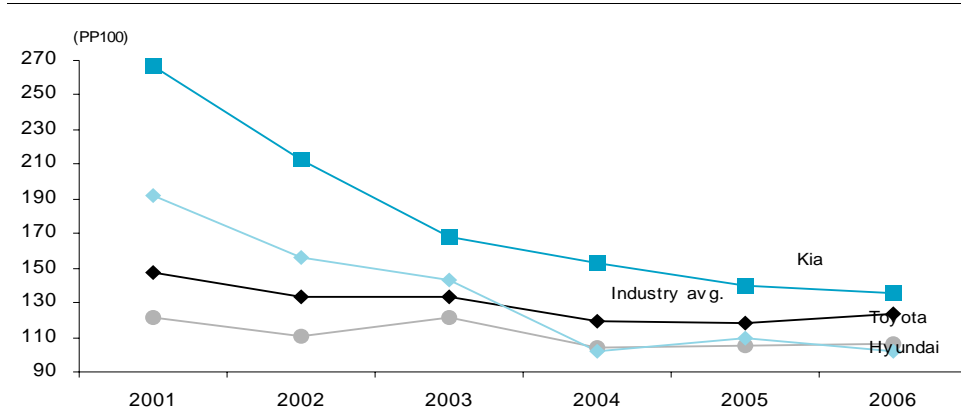
Source: KAMA, Korea Investment & Securities

Total Quality Award Winners

2007 TQI winners		2006 TQI winners		
Segment	Winner(s)	Score	Winner(s)	Score
<u>Small Car</u>	Honda Civic	882	Honda Civic	871
<u>Small Multi-Function</u>	Volkswagen Rabbit	880	Chevrolet HHR	865
<u>Medium Car</u>	Saturn Aura	892	Ford Fusion	884
—	Nissan Maxima	891		
<u>Large Car</u>	Hyundai Azera	901	Dodge Charger	906
<u>Small Specialty Under \$25,000</u>	Mini Cooper	911	Mini Cooper	909
<u>Near Luxury Car</u>	BMW 3-Series Sedan	919	Lexus IS 300	919
<u>Luxury Car</u>	Mercedes-Benz S-Class Sedan	938	BMW 7-Series Sedan	928
<u>Convertibles Under \$30,000</u>	Mini Cooper Convertible	905	Mini Cooper Convertible	896
<u>Convertibles Over \$30,000</u>	Chevrolet Corvette Convertible	930	Chevrolet Corvette Convertible	912
<u>Minivan</u>	Kia Sedona	866	Honda Odyssey	876
—	Hyundai Entourage	866		
—	Nissan Quest	865		
<u>Small SUV</u>	Hyundai Santa Fe	885	Saturn VUE	870
<u>Medium SUV</u>	Kia Sorento	889	Toyota 4Runner	878
<u>Medium Crossover</u>	Dodge Magnum	882	Dodge Magnum	880
<u>Large SUV</u>	Ford Expedition EL	918	Nissan Armada	907
<u>Near Luxury SUV</u>	Lexus RX 350	905	Lexus RX 330/400H	904
<u>Luxury SUV</u>	Mercedes-Benz ML	915	Land Rover Range Rover Sport	910
<u>Standard Pick-Up</u>	Honda Ridgeline	879		
<u>Full-Size Pickup</u>	Nissan Titan	876	Honda Ridgeline	885
	Ford F-150	875		
<u>Heavy Duty Pickup</u>	Ford F-250/350	876	Chevrolet Silverado 2500/3500	870

Source: Strategic Vision, Korea Investment & Securities

IQS



Source: J.D. Power, Korea Investment & Securities

Balance sheet

Fiscal year ending Dec. (W bn)	2005	2006	2007F	2008F	2009F
Current assets	9,003.4	8,043.0	8,845.0	9,325.9	9,944.3
Cash & cash equivalents	6,006	4,448	5,220	5,528	6,023
Accounts receivable	1,312	1,559	1,595	1,661	1,744
Inventory	1,008	1,220	1,160	1,188	1,227
Fixed assets	9,866	10,584	10,707	11,049	11,369
Investments	7,792	7,803	8,471	9,311	10,052
Tangible assets	8,946	9,465	9,666	10,176	10,371
Intangible assets	920	1,119	1,041	873	998
Total assets	26,561.2	26,430.0	28,023.1	29,686.3	31,365.7
Current liabilities	7,617	6,334	6,073	6,157	6,129
Accounts payable	3,444	2,118	2,069	2,109	2,124
Short-term borrowing	780	474	348	322	254
Current portion of LT debt	464	116	114	116	117
Long-term debt	3,992	4,045	4,121	3,839	3,485
Debentures	920	1,098	1,015	1,013	983
Long-term borrowings	15	14	15	15	16
Total liabilities	11,608.4	10,379.1	10,193.5	9,996.1	9,614.0
Paid-in capital	1,483	1,485	1,485	1,485	1,485
Capital surplus	5,392	5,409	5,409	5,409	5,409
Retained earnings	8,888	10,090	11,746	13,606	15,668
Capital adjustments	-810	-934	-810	-810	-810
Shareholders' equity	14,952.9	16,050.8	17,829.6	19,690.2	21,751.7

Source: Company data, Korea Investment & Securities estimates

Income statement

Fiscal year ending Dec. (W bn)	2005	2006	2007F	2008F	2009F
Sales	27,383.7	27,335.4	29,368.3	30,995.6	32,681.7
Gross profit	5,198.0	4,926.8	5,566.4	5,972.5	6,388.4
SG&A expenses	3,813.9	3,692.3	3,996.9	4,218.2	4,458.6
Operating profit	1,384.1	1,234.4	1,569.5	1,754.3	1,929.8
Non-operating profit	2,554.1	1,858.9	1,838.7	1,951.2	2,084.4
Interest income	254.6	255.9	274.5	297.9	318.5
FX gains	345.5	221.4	223.2	215.3	222.8
Equity gains	772.2	711.1	604.4	664.8	731.3
Non-operating expenses	1,199.2	1,207.5	966.4	968.9	988.6
Interest expenses	162.9	154.6	127.2	117.8	113.0
FX losses	193.4	172.0	182.8	176.5	182.8
Equity losses	49.3	110.7	55.4	58.4	61.6
Recurring profit	2,739.1	1,885.9	2,441.9	2,736.7	3,025.6
EBT	2,739.1	1,885.9	2,441.9	2,736.7	3,025.6
Income taxes	390.3	359.8	525.0	588.4	650.5
Net profit	2,348.7	1,526.1	1,916.9	2,148.3	2,375.1
Adjusted EBIT	1,384.1	1,234.4	1,569.5	1,754.3	1,929.8
EBITDA	2,339.4	2,330.5	2,732.4	2,703.4	2,907.9

Source: Company data, Korea Investment & Securities estimates

Cash flow

Fiscal year ending Dec. (W bn)	2005	2006	2007F	2008F	2009F
C/F from operating	2,512.7	1,113.3	963.9	1,429.6	1,348.1
Net profit	2,348.7	1,526.1	1,916.9	2,148.3	2,375.1
Depreciation	765.8	791.3	877.6	657.4	679.9
Amortization	189.4	304.8	285.3	291.7	298.3
Net incr. in W/C	1,444.6	-436.9	-936.7	-370.6	-578.3
Others	-2,235.9	-1,072.0	-1,179.2	-1,297.1	-1,426.8
C/F from investing	-1,112.1	-731.2	-491.0	-1,117.9	-936.2
Capex	-1,253.4	-1,221.7	-1,000.0	-1,000.0	-1,000.0
Decr. in fixed assets	63.5	32.2	0.0	0.0	0.0
Net incr. in current assets	84.7	-960.4	802.0	480.9	618.4
Incr. in investment	-1,680.0	-10.9	-668.1	-840.3	-740.8
Others	1,673.0	1,429.5	375.1	241.5	186.2
C/F from financing	-604.0	-802.6	-472.6	-311.7	-411.9
Incr. in equity	34.2	19.4	0.0	0.0	0.0
Incr. in debt	474.3	-655.6	-128.2	-22.5	-67.6
Dividends	-326.8	-342.3	-261.7	-287.6	-313.6
Others	-785.7	175.8	-82.7	-1.6	-30.7
Increase in cash	796.6	-420.6	0.3	0.0	0.0

Source: Company data, Korea Investment & Securities estimates

Key financial data

Fiscal year ending Dec.	2005	2006	2007F	2008F	2009F
Per-share data (won)					
EPS	8,275	5,368	6,734	7,547	8,343
BPS	52,682	56,461	62,633	69,169	76,411
DPS	1,250	1,000	1,100	1,200	1,200
SPS	96,479	96,156	103,167	108,883	114,806
Growth (%)					
Sales growth	-0.3	-0.2	7.4	5.5	5.4
OP growth	-30.1	-10.8	27.1	11.8	10.0
NP growth	34.6	-35.0	25.6	12.1	10.6
EPS growth	34.4	-35.1	25.4	12.1	10.6
EBITDA growth	-19.8	-0.4	17.2	-1.1	7.6
Profitability (%)					
OP margin	5.1	4.5	5.3	5.7	5.9
NP margin	8.6	5.6	6.5	6.9	7.3
EBITDA margin	8.5	8.5	9.3	8.7	8.9
ROA	9.2	5.8	7.0	7.4	7.8
ROE	16.8	9.8	11.3	11.5	11.5
Dividend yield	1.9	1.5	1.6	1.8	1.8
Stability					
Net debt (W bn)	-3,826.7	-2,746.4	-3,728.9	-4,060.8	-4,654.3
Int. coverage (X)	-15.1	-12.2	-10.7	-9.7	-9.4
D/E ratio (%)	14.6	10.6	8.4	7.5	6.3
Valuation (X)					
PER	8.3	12.9	10.2	9.1	8.3
PBR	1.3	1.2	1.1	1.0	0.9
PSR	0.7	0.7	0.7	0.6	0.6
EV/EBITDA	5.9	6.4	5.1	5.0	4.5

Source: Company data, Korea Investment & Securities estimates

Company Description

Hyundai Motor is the nation's largest automaker with 1.62mn units of output and a domestic market share of 49.9% in 2006. It owns a 38.67% stake in Kia, which has an 18.15% stake in Hyundai Mobis. Hyundai Mobis is the largest shareholder of Hyundai Motor with a 15% stake. Hyundai Motor built a US plant in May 2005 and it is accelerating its 'Global Expansion Strategy' in order to counter trade friction and FX risk hedging.

Statement of Risk

Won appreciation and labor disputes are the company's two major risks. Exports accounted for 62% of sales in FY05, and nearly 70% of exports are denominated in USD. The union has gone on strike for two weeks every year on average since its inception in 1987.

Change in recommendation and price target

Company (Code)	Date	Recommendation	Price target
Hyundai Motor (005380)	03-22-05	BUY	W69,000
	07-11-05	BUY	W78,000
	07-28-05	BUY	W84,000
	09-05-05	BUY	W88,000
	09-15-05	BUY	W97,000
	12-01-05	BUY	W105,000
	12-07-05	BUY	W120,000
	12-21-05	BUY	W126,000
	01-10-06	BUY	W120,000
	01-26-06	BUY	W115,000
	05-22-06	BUY	W105,000
	07-25-06	BUY	W98,000
	08-07-06	BUY	W105,000
	10-30-06	BUY	W100,000
	12-08-06	BUY	W87,000
	12-21-06	BUY	W89,000
	01-10-07	BUY	W79,000
	02-22-07	BUY	W84,000
	05-02-07	BUY	W78,000
	06-07-07	BUY	W83,000



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- BUY: Expected to outperform the market by 10%p or more.
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- Underweight: Expected to underperform the market by 10%p or more.

* As of December 26, 2006, Korea Investment & Securities Co., Ltd. has adopted a new stock rating system comprised of Long-term Buy, BUY, Hold and Underweig

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

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- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

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