

# Kia Motors (000270)

**Sung Moon Suh**  
822-768-6159  
sungmoon.suh@truefriend.com

## New Optima to differentiate from NF

**Rating: Buy / Closing price: W15,250 (10 August 2005) / Price target: W19,400**

- Lineup reshuffling almost complete:** Kia released a photo of the new Optima (MG) yesterday and we found it to be significantly upgraded. The MG is slated for launch domestically in September and exports should begin in November for Europe (December for the US). As Starting with the Sorento SUV (launched in February 2002), Kia has continued to update its lineup: E-segment Opirus in March 2003, C-segment Cerato in November 2003, A-segment Morning (export name – Picanto) in February 2004, the Sportage compact SUV in August 2004, B-segment Pride in April 2005, and the Grand Carnival minivan in July 2005. As such, Kia will be armed with a new lineup from 2Q06, as the company should launch the redesigned Carens minivan in Spring 2006.
- Different from NF:** We believe there is a growing possibility that Kia's differentiating strategy for the MG will succeed. The MG, compared with the current Optima, is 2cm longer in its wheelbase but 1cm shorter and narrower in length and width, respectively. The model measures 4,735 mm long, 1,805 mm wide and 1,480 mm tall. Compared with Hyundai Motor's (HMC) NF, it is 1cm shorter in wheelbase, 6.5cm shorter in length and 2.5cm narrower. As such, we can confirm that Kia has attempted to differentiate the MG from the NF as an entry-midsize model. For North America and the general market, the MG will be available in 2.4L & 2.7L gasoline engines, but a new 2.0L diesel engine will be introduced in Europe along with 2.0L & 2.7L gasoline engines.
- MG to be a major driver of earnings recovery:** The Optima went on sale in July 2000 domestically, using the same platform as the EF Sonata. Due to the lack of differentiating points, the Optima had poor sales in the domestic market. However, we are optimistic about the new MG with its different platform and the company's strategy to differentiate it from the NF. Kia sold 2,496 units of the Optima per month in 7M05, however, we forecast MG's monthly sales to reach 5,000 units. As such, we forecast Kia's domestic market share, which dropped to 23% in 2004 from 28.5% in 2000, to rise to 24.4% in 2005, 25.3% in 2006 and 25.6% in 2007. In this regard, Kia's operating profit should jump 23% YoY in FY06 and 25.2% YoY in FY07. Maintain Buy with a six-month price target of W19,400, based on FY06F PER of 9x.

Kia Motors											
10 August 2005 / W15,250 / Mkt cap: USD5,219mn, KRW5,295bn											
Yr to	Sales	OP	RP	NP	EPS	chg.	EBITDA	P/E	EV/	PBR	ROE
Dec	(W bn)	(W bn)	(W bn)	(W bn)	(Won)	yoy (%)	(W bn)	(x)	EBITDA (x)	(x)	(%)
2003A	12,839.9	812.4	944.4	769.4	2,139	23.3	1,280.5	7.1	4.3	1.2	17.7
2004A	15,257.7	502.5	829.5	690.6	1,989	-7.0	1,027.4	7.7	6.8	1.0	14.2
2005F	16,806.6	424.8	1,110.9	888.7	2,559	28.7	984.9	6.0	5.0	0.9	16.3
2006F	18,476.0	522.5	982.3	761.3	2,193	-14.3	1,130.5	7.0	4.2	0.8	12.4
2007F	20,410.5	654.3	1,163.8	872.9	2,514	14.7	1,307.7	6.1	3.4	0.7	12.9

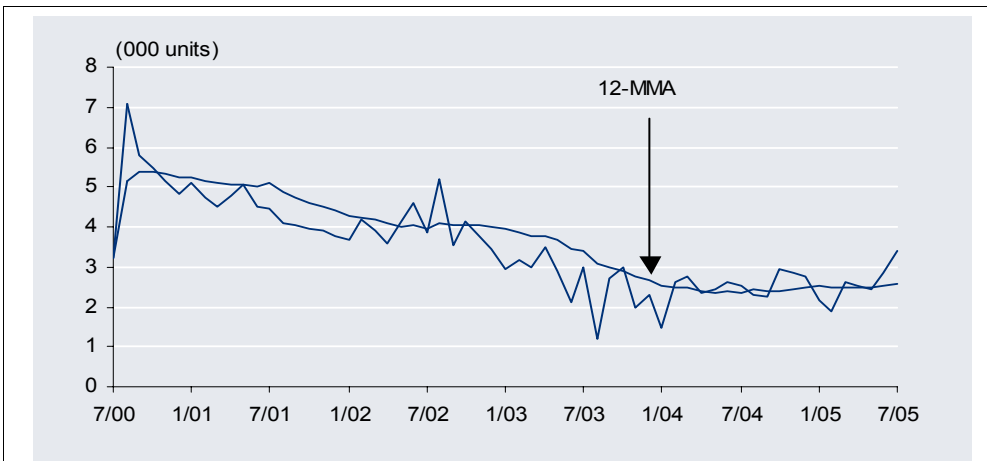
Source: Company data, Korea Investment & Securities (KIS) estimates

New Optima snapshot



Source: Company data, KIS

Optima domestic sales



Source: KAMA, KIS

Comparison of MG with rival models in dimensions and capacity

	MG	Optima 2.0L	NF 2.0L	EF 2.0L	New SM520	NF 2.4L	Camry 2.4L	Accord 2.4L
Dimensions (mm)								
Length	4,735	4,745	4,800	4,745	4,895	4,800	4,805	4,830
Width	1,805	1,815	1,830	1,820	1,785	1,830	1,795	1,820
Height	1,480	1,420	1,475	1,420	1,475	1,475	1,480	1,455
Wheelbase (mm)	2,720	2,700	2,730	NA	2,775	2,730	2,720	2,741
Engines								
Displacement (litres)	1.8L, 2.0L, 2.4L	1,997	1,998	1,997	1,998	2,359	2,362	2,354
Net hp at rpm	NA	137/6,000	144/6,000	137/6,000	140/5,800	166/5,800	157/5,600	160/5,500
Net torque (kg.m) at rpm	NA	18.4/4,500	19.1/4,250	18.4/4,500	18.8/4,800	23.0/4,250	24.5/4,000	22.3/4,500
Fuel economy - A/T (km/litre)	NA	10	10.7	9.4	10.8	10.9	NA	10.8
Fuel tank (litre)	NA	65	70.0	65.0	NA	70	70	65
Price								
US market base price (US\$)	NA	*16,490	NA	NA	NA	*18,495	18,560	19,890
Korean market (Won mn)	NA	13.99	***16.89	14.57	17.70	**23.82	-	-

Note: \* is the price for the currently selling 2.7L. \*\*F24S luxury model price. \*\*\* N20 model price. Source: Respective company data, KIS

**Change in recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Kia Motors (000270)	10-13-03	Hold	W9,500
	11-05-03	Buy	W13,000
	01-02-04	Buy	W14,000
	03-22-04	Buy	W14,600
	06-03-04	Buy	W13,600
	06-10-04	Buy	W14,200
	11-23-04	Buy	W13,400
	01-20-05	Buy	W15,000
	02-07-05	Buy	W17,000
	02-28-05	Buy	W19,000
	03-22-05	Buy	W18,600
07-11-05	Buy	W19,400	

**Price trend: Kia Motors (000270)**



**■ Korea Investment & Securities Co., Ltd. stock recommendation classifications based on 6-month forward share price performance relative to market index performance.**

- Strong Buy: Assumes over 30% out performance relative to market index
- Buy: Assumes 10~30% out performance relative to market index
- Hold: Assumes -10~10% share price performance relative to market index
- Underweight: Assumes over 10% share price under performance relative to market index

**■ Korea Investment & Securities Co., Ltd. sector recommendation classifications based on 6-month forward performance of sector's portfolio weight to KOSPI (KOSDAQ) market capitalization weight**

- Overweight: Assumes sector's portfolio weight to outperform KOSPI (KOSDAQ) market capitalization weight
- Neutral: Assumes sector's portfolio weight to have same return as KOSPI (KOSDAQ) market capitalization weight
- Underweight: Assumes sector's portfolio weight to under perform KOSPI (KOSDAQ) market capitalization weight

**■ Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Korea Investment & Securities Co., Ltd. does not own over 1% of the companies mentioned this report as of 11 August 2005. Korea Investment & Securities Co., Ltd. has provided this report to various third parties. Neither the analysts covering these companies nor their spouses own any shares of the companies mentioned in this report as of 11 August 2005. Starting 1 June 2005, due to the merger between Dongwon Securities and KITC to form Korea Investment & Securities Co., Ltd., the previous ratings and price targets of KITC will be disregarded, while ratings and price targets of Dongwon Securities will remain intact. The contents of this report accurately reflect the analyst's views. Under no circumstances were there any external pressures or intervention during the analysis process or the preparation of this report. Prepared by: Sung Moon Suh

This report was written by Korea Investment & Securities Co., Ltd. to help its clients invest in securities over which Korea Investment & Securities Co., Ltd. holds the copyright. This report cannot be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd. This report has been prepared by Korea Investment & Securities Co., Ltd. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. We make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. The final investment decision is based on the client's judgment, and this report cannot be used as evidence in any legal dispute related to investment decisions.