

## Bottom-up

### Analyst Moon-su Chang

+822-3787-2639 jospheh@hmsec.com

### Jr. Analyst Jun-woo Cho

+822-3787-2570 Junwoo.cho@hmsec.com

Share price (KRW, Dec 16)	209,500
Upside (%)	43.2
Market cap (KRW bn)	44,763
Shares outstanding	213,668
Paid-in capital (KRW bn) / Face value (KRW)	1,489/5,000
52-week high/low (KRW)	267,500/184,000
60-day avg. daily T/O (KRW bn)	144
Foreign ownership (%)	28,700.98
Major shareholders (%)	Hyundai Mobis and 6 others 29.38
<b>Price performance</b>	1M 3M 6M
<b>Absolute (%)</b>	1.5 0.7 -12.5
<b>Relative (%p)</b>	1.1 4.9 -4.6

K-IFRS, consolidated

(KRW)	EPS(20F)	EPS(21F)	T/P
Previous	26,474	32,326	300,000
Revised	26,474	32,326	300,000
Consensus	21,557	24,477	294,524
Difference (%)	22.8%	32.1%	1.9%

### 12-month price performance



Source: FnGuide, Hyundai Motor Securities

### Investment highlights

- 3Q21 operating profit reached KRW1.61tn (YoY turnaround, OPM 5.6%), 0.5% lower than consensus. The company maintained its earnings level thanks to favorable forex rates, ASP-focused product displacement, product mix enhancement, etc.

- The logistics and supply issues plaguing global auto parts companies remains, but we expect the semiconductor supply shortage caused by the COVID-19 Delta variant to improve. Strong demand supports margin recovery with a price/product mix-focused strategy. We maintain BUY and our target price of KRW300,000 on Hyundai Motor. The stock remains our sector top-pick

### Major issues and earnings outlook

- 3Q21 review: 3Q20 allowance account base effect. Financial profit is supporting margins.

1) Posted sales of KRW28.9tn (+4.7% YoY, -4.8% QoQ), operating profit of KRW1.6tn (YoY turnaround, -14.8%QoQ, OPM 5.6%), and NI of KRW1.5tn (YoY turnaround, -25.0%QoQ)

2) Operating profit slightly below consensus (KRW28.9tn, OPM 5.8%) and our estimates (KRW1.63tn, OPM 5.6%) by 0.5% and 1.4%, respectively.

3) Profit factor: Favorable forex rates and product mix offsetting volume decrease effect.

- Operating profit declined due to unfavorable forex rates (by KRW343bn), supply shortages (by KRW190bn), but came in with an expected margin with product mix profit at KRW225bn and financial profit of KRW65bn, contributing to overall revenue.

- Operating profit by division: Vehicles KRW976.7bn (OPM 3.5%), finance KRW570bn (OPM 12.5%), others KRW79bn (OPM 4.6%), and consolidation adjustments KRW161bn. Overall profit remains on an uptrend.

- Key takeaways: Change in guidance. Earnings should improve with market recovery despite lowering product volume target.

1) Product mix enhancement outlook: Despite lowering the volume growth rate target to 7%, we raised the revenue growth rate from 17-18%. We also adjusted the vehicle division's OPM to 4.5-5.5%.

2) Supply shortage is driving higher prices: Overall market supply and inventory shortage against demand from recovering profitability by reducing incentives and product mix enhancement. The improving semiconductor shortage situation is driving prices higher. Management changes are indicative of ongoing improvement in profitability.

### Share price outlook and valuation

- Global auto parts companies' supply risk remains. The spread of the Delta variant and logistics risk is eroding the initial expectations for a supply recovery. Global automobile companies are building up auto parts inventories to ensure stable operations.

- Operations are recovering and profit expectations for the automobile industry should decline in short-term even after 4Q21.

- Strong demand supporting price/product mix-centered strategy

### Earnings forecasts and valuations

	Sales (KRW bn)	OP (KRW bn)	NP (KRW bn)	EBITDA (KRW bn)	EPS (KRW)	Growth (%)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Div. yield (%)
2019	105,746	3,606	2,980	7,437	12,799	120.9	9.4	0.5	12.5	4.3	3.3
2020	103,998	2,395	1,424	6,580	5,806	-54.6	33.1	0.8	17.6	2.0	1.6
2021F	117,783	7,016	5,904	11,484	26,474	355.9	7.9	0.8	11.1	8.2	1.9
2022F	125,000	8,194	7,161	13,247	32,326	22.1	6.5	0.7	9.4	9.1	2.0
2023F	130,429	9,136	7,972	14,558	36,121	11.7	5.8	0.7	8.2	9.4	2.0

Note: K-IFRS, consolidated

**Fig 1. Hyundai Motor Company 3Q21 review**

	Quarterly Earnings			Percentage Change		Estimates		Consensus	
	3Q21	3Q20	2Q21	(yoy)	(qoq)	3Q21	Difference(%)	3Q21	Difference(%)
Sales	28,867.2	27,575.8	30,326.1	4.7	(4.8)	28,935.8	(0.2)	27,823.0	3.8
Operating profit	1,606.7	(313.8)	1,886.0	Surplus	(14.8)	1,629.9	(1.4)	1,614.2	(0.5)
Pretax profit	1,937.0	(362.3)	2,502.0	Surplus	(22.6)	1,914.3	1.2	1,912.8	1.3
Net profit	1,306.3	(336.1)	1,761.9	Surplus	(25.9)	1,396.7	(6.5)	1,323.3	(1.3)
Operating margin (%)	5.6	(1.1)	6.2	6.7	(0.7)	5.6	(0.1)	5.8	(0.2)
Pretax margin (%)	6.7	(1.3)	8.3	8.0	(1.5)	6.6	0.1	6.9	(0.2)
Net margin (%)	4.5	(1.2)	5.8	5.7	(1.3)	4.8	(0.3)	4.8	(0.2)

Source: Company data, Hyundai Motor Securities  
Note: K-IFRS, consolidated

**Fig 2. Earnings revisions**

(KRW bn)	Revised		Previous		%change	
	2021F	2022F	2021F	2022F	2021F	2022F
Sales	117,783	125,000	117,905	125,255	-0.1%	-0.2%
Operating profit	7,016	8,194	7,051	8,081	-0.5%	1.4%
Pretax profit	8,479	9,701	8,477	9,592	0.0%	1.1%
Net profit	6,580	7,537	6,579	7,453	0.0%	1.1%

Source: Hyundai Motor Securities

**Fig 3. Fair valuation**

		Note
12M-fwd net profit attributable to controlling interest (KRW bn) - ①	6,467.0	HMS estimate
Target P/E (x) - ②	10.7	KOSPI's 12-month-forward P/E 10.7x (recent 1 month average)
Target market cap (common + preferred stock) - ③	69,196.6	① X ②
Preferred stock's market cap as % of total market cap - ④	12.4%	Basis stock price(December 16, 2021)
Common stock target market cap (KRW bn) - ⑤	60,619.4	③ X (1 - ④)
# of common stock ('000 shares) - ⑥	213,668	Including treasury shares
<b>Common stock fair value per share (KRW)</b>	<b>300,000</b>	⑤ ÷ ⑥
Target price (KRW)	300,000	Common stock target P/E 10.3x, 3.7% lower than KOSPI's 12-month-forward P/E
April 3 close (KRW)	209,500	Basis stock price(December 16, 2021)
Upside potential (%)	43.2%	
Rating	BUY	

Source: Company data, Hyundai Motor Securities

## Income statement

(Unit:bn)	2019	2020	2021F	2022F	2023F
<b>Sales</b>	105,746	103,998	117,783	125,000	130,429
Change (%)	9.2	-1.7	13.3	6.1	4.3
<b>Cost of goods sold</b>	88,091	85,516	96,089	101,957	106,000
of sales	83.3	82.2	81.6	81.6	81.3
<b>Gross profit</b>	17,655	18,482	21,695	23,042	24,429
Gross margin (%)	16.7	17.8	18.4	18.4	18.7
Change (%)	16.6	4.7	17.4	6.2	6.0
<b>SG&amp;A expenses</b>	14,050	16,087	14,679	14,848	15,292
of sales	13.3	15.5	12.5	11.9	11.7
<b>EBITDA</b>	7,437	6,580	11,484	13,247	14,558
EBITDA margin (%)	7.0	6.3	9.8	10.6	11.2
Change (%)	20.3	-11.5	74.5	15.4	9.9
<b>Operating profit</b>	3,606	2,395	7,016	8,194	9,136
Operating margin (%)	3.4	2.3	6.0	6.6	7.0
Change (%)	48.9	-33.6	192.9	16.8	11.5
<b>Non-operating profit</b>	16	-464	177	253	262
Interest income	827	814	580	647	701
Interest expenses	475	956	421	386	430
Other non-operating income	-336	-322	18	-8	-9
Subsidiaries/affiliate income	543	162	1,286	1,254	1,401
<b>Pretax profit from cont ops</b>	4,164	2,093	8,479	9,701	10,799
Pretax margin (%)	3.9	2.0	7.2	7.8	8.3
Change (%)	64.6	-49.7	305.1	14.4	11.3
Income tax	978	169	1,899	2,163	2,408
Profit from continuing ops	3,186	1,925	6,580	7,537	8,391
Profit from discontinuing ops	0	0	0	0	0
<b>Net profit</b>	3,186	1,925	6,580	7,537	8,391
Net margin (%)	3.0	1.9	5.6	6.0	6.4
Change (%)	93.7	-39.6	241.8	14.5	11.3
NP from controlling interest	2,980	1,424	5,904	7,161	7,972
NP from non-controlling interest	206	500	676	377	420
Other comprehensive income	631	-1,022	1,187	0	0
Total comprehensive income	3,817	903	7,766	7,537	8,391

## Cash flow statement

(KRW bn)	2019	2020	2021F	2022F	2023F
<b>Operating cash flow</b>	420	-410	5,000	12,247	13,685
<b>Net profit</b>	3,186	1,925	6,580	7,537	8,391
Depreciation on tangible assets	2,545	2,750	2,884	3,386	3,723
Amortization on intangible assets	1,287	1,436	1,583	1,667	1,698
FX-related profit	-45	136	-32	0	0
Dec (inc) in working capital	-15,644	-16,992	-9,773	910	1,273
Others	9,091	10,335	3,758	-1,253	-1,400
<b>Investing cash flow</b>	-5,929	-9,338	-8,317	-8,533	-7,445
Dec (inc) in investment assets	-2,580	-753	-2,290	-1,728	-549
Decrease in tangible assets	86	134	115	124	124
Increase in tangible assets (capex)	-3,587	-4,688	-3,553	-3,228	-3,228
Others	152	-4,031	-2,589	-3,701	-3,792
<b>Financing cash flow</b>	4,875	11,352	9,171	13,364	14,179
Increase (decrease) in debt	1,087	1,800	155	-40	-40
Increase (decrease) in bond	4,850	6,990	10,735	11,164	11,610
Increase in capital	-4	-7	-145	0	0
Dividend	-1,122	-894	-1,186	-1,071	-1,097
Others	64	3,463	-388	3,311	3,706
<b>Other cash flow</b>	203	-425	274	0	0
<b>Increase (decrease) in cash</b>	-432	1,180	6,128	17,077	20,419
Beginning cash	9,114	8,682	9,862	15,990	33,067
Ending cash	8,682	9,862	15,990	33,067	53,486

Note: K-IFRS Consolidated

## Balance sheet

(KRW bn)	2019	2020	2021F	2022F	2023F
<b>Current assets</b>	45,905	51,090	58,089	75,788	97,035
Cash and cash equivalents	8,682	9,862	15,990	33,067	53,486
Short-term investment assets	7,343	7,345	8,793	8,864	8,935
Accounts receivable	3,513	3,284	3,434	3,550	3,710
Inventory assets	11,664	11,334	12,251	12,663	13,236
Other current assets	5,303	6,494	5,984	6,008	6,032
Non-current assets	86,349	88,589	96,272	100,010	102,428
Tangible assets	32,832	34,092	34,415	34,133	33,513
Intangible assets	5,266	5,678	6,027	6,139	6,251
Investment assets	22,238	22,766	26,153	29,136	31,085
Other non-current assets	26,013	26,053	29,677	30,602	31,579
Other financial assets	62,259	69,665	76,709	77,634	78,570
<b>Total assets</b>	194,512	209,344	231,070	253,432	278,032
<b>Current liabilities</b>	53,314	59,460	62,899	67,256	72,416
Short-term debt	12,571	13,781	12,472	12,272	12,272
Accounts payable	7,669	8,793	9,197	9,506	9,936
Current portion of long-term debt	15,779	16,104	19,064	22,567	26,260
Other current debt	17,295	20,782	22,166	22,911	23,948
Non-current liabilities	64,832	73,544	85,247	96,786	108,933
Bonds	41,806	48,795	59,530	70,694	82,304
Long-term debt	11,217	12,727	13,130	13,090	13,050
LT financial debt (incl. lease)	144	434	186	186	186
Other non-current debt	11,665	11,588	12,401	12,816	13,393
Other financial liabilities	0	0	0	0	0
<b>Total liabilities</b>	118,146	133,003	148,146	164,042	181,349
<b>Owners of parent equity</b>	70,066	69,481	75,278	81,367	88,242
Paid-in capital	1,489	1,489	1,489	1,489	1,489
Capital surplus	4,197	4,190	4,045	4,045	4,045
Capital adjustment, etc.	-1,517	-1,701	-1,701	-1,701	-1,701
Other accum earnings and comp income	-2,353	-3,410	-2,444	-2,444	-2,444
Retained earnings	68,250	68,912	73,888	79,977	86,852
Non-controlling interest	6,300	6,860	7,646	8,023	8,442
<b>Total equity</b>	76,366	76,341	82,924	89,390	96,684

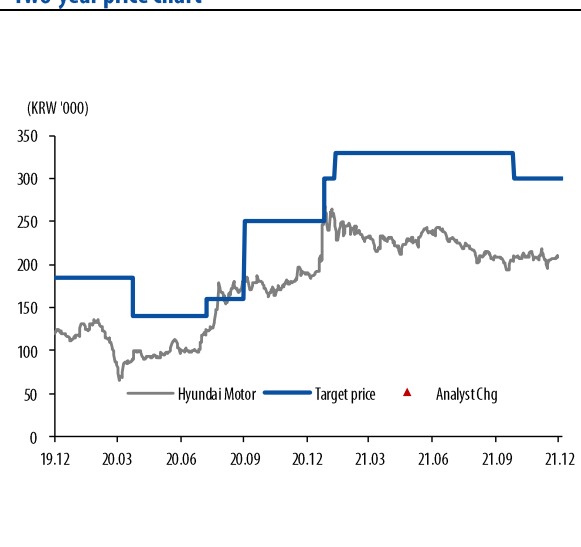
## Key financial data

(Unit:Won, X, %)	2019	2020	2021F	2022F	2023F
EPS (based on net profit)	13,762	8,147	29,636	34,089	38,085
EPS (based on parent net profit)	12,799	5,806	26,474	32,326	36,121
BPS (based on total equity)	275,749	275,660	299,430	322,778	349,115
BPS (based on owners of parent equity)	253,001	250,888	271,822	293,810	318,632
DPS	4,000	3,000	4,100	4,200	4,200
P/E (based on net profit)	8.8	23.6	7.1	6.1	5.5
P/E (based on parent net profit)	9.4	33.1	7.9	6.5	5.8
P/B (based on total equity)	0.4	0.7	0.7	0.6	0.6
P/B (based on owners of parent equity)	0.5	0.8	0.8	0.7	0.7
EV/EBITDA (reported)	12.5	17.6	11.1	9.4	8.2
Dividend yield	3.3	1.6	1.9	2.0	2.0
<b>Growth (%)</b>					
EPS (based on net profit)	114.2	-40.8	263.8	15.0	11.7
EPS (based on parent net profit)	120.9	-54.6	355.9	22.1	11.7
<b>Profitability (%)</b>					
ROE (based on net profit)	4.2	2.5	8.3	8.7	9.0
ROE (based on parent net profit)	4.3	2.0	8.2	9.1	9.4
ROA	1.7	1.0	3.0	3.1	3.2
<b>Stability (%)</b>					
Total liabilities/equity	154.7	174.2	178.7	183.5	187.6
Net debt/equity	73.7	81.4	82.3	73.4	62.4
Interest coverage	11.4	6.6	23.6	24.7	24.3

**Investment rating and target price history**

Date	Rating	TP	Difference (%)	
			Average	High/Low
2019.06.28	BUY	185,000	-31.30	-23.51
2019.12.28	AFTER 6M	185,000	-40.30	-26.49
2020.04.08	BUY	140,000	-28.23	-11.07
2020.07.24	BUY	160,000	-0.30	14.69
2020.09.17	BUY	250,000	-27.15	-1.60
2021.01.11	BUY	300,000	-15.00	-11.83
2021.01.27	BUY	330,000	-29.66	-24.39
2021.07.27	AFTER 6M	330,000	-36.18	-31.82
2021.10.13	BUY	300,000	-30.42	-27.17
2021.12.17	BUY	300,000		

**Two-year price chart**



**Compliance note**

- Hyundai Motor Securities has not disclosed the material contained in this report to any institutional investor or third party prior to its publication.
- The author(s) of this report does(do) not own more than 1 of the shares of the company(ies) covered in this report.
- Hyundai Motor Securities has not taken part in securities issuance (DR, CB, IPO, and market making of the company(ies) covered in this report as lead manager for the past six months.
- The author(s) of this report does(do) not have any interests in the company(ies) covered herein.
- The company covered herein Hyundai Motors is an affiliate of Hyundai Motor Securities as of the date of recommendation.
- This report accurately reflects the author(s)'s professional views and was written without any undue external influence or interference.

**Investment rating**

Hyundai Motor Securities offers three sector investment ratings based on six-month forward fundamentals and share price outlook.

- **OVERWEIGHT:** Sector-wide fundamentals and share prices are expected to turn up.
- **NEUTRAL:** No meaningful fundamental improvement is expected.
- **UNDERWEIGHT:** Sector-wide fundamentals and share prices are expected to turn down.

Hyundai Motor Securities offers three company investment ratings based on the relative return expected in the following six months, based on the closing price on the date of rating declaration.

- **BUY:** Excess return of +15p or more
- **MARKETPERFORM (M.PERFORM):** Excess return of between -15p and +15p
- **SELL:** Excess return of -15p or less

**Stock ratings distribution (2020.10.01-2021.09.30)**

Rating	Count	% of rating category
BUY	143	91.1
MARKETPERFORM	14	8.9
SELL	0	0

- This report has been prepared for informational purposes only and thus may not be reproduced or distributed without the prior written consent of Hyundai Motor Securities.
- The information and statistical data contained herein were taken from sources believed to be reliable but in no way can be guaranteed and, therefore, final investment decisions should be made based on each client's own judgment.
- This report cannot be used as evidence in any legal disputes related to the client's investment decisions.