

Expecting a turnaround in 1H23

Analyst Moonsu Chang

+822-3787-2639 joseph@hmsec.com

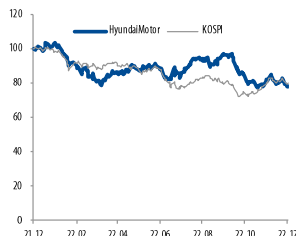
Share price (KRW, Dec 09)	162,500
Upside (%)	47.7
Market Cap (KRW bn)	34,721
Shares outstanding	213,668
Paid-in capital(KRW bn)/ Face value (KRW)	1,489/5,000
52-week high/low (KRW)	215,500/160,500
60-day avg. daily T/O (KRW bn)	132
Foreign ownership (%)	29.050.98
Major shareholders (%)	Hyundai Mobis and 8 others
	29.38

Price performance	1M	1M	1M
Absolute (%)	-4.1	-18.8	-11.0
Relative (%)	-2.7	-18.9	-2.1

K-IFRS Consolidated

(KRW)	EPS(22F)	EPS(23F)	T/P
Previous	35,306	42,877	240,000
Revised	35,306	42,877	240,000
Consensus	28,618	30,354	233,333
Difference (%)	23.4%	41.3%	2.9%

12-month price performance



Source: FnGuide, Hyundai Motor Securities

Investment highlights

The market should make a gradual recovery from supply chain disruptions in 2023, and considerably strengthen at the end of 2023. The base effect of 1H23 should lead to an increase in sales in the US and Europe, however the economic slowdown remains the key to recovery from supply chain disruptions in 2H23. As demand recovers to pre-pandemic levels, stronger-than-expected performance due to base effects should drive a stock price recovery in advanced markets such as the US and Europe, which suffered from major supply chain disruptions.

Major issues and earnings outlook

We expect volumes to recover due to the base effect of 1H23, and the stable performance improvement of OEMs will continue. Due to the aftermath of the quality cost paid in 3Q22, the stock price level remains in the doldrums, but should normalize as profit improves until 2Q23.

Although the profit momentum in 2H23 will likely slow, expectations for the effect of conversion investment will rise, with the effects from investments in electrification, the transition to electrification of major markets, and commercialization strategies for autonomous driving becoming visible in 2024-2025. Meaningful investments in companies such as Motional, which should improve Hyundai Motor's (Hyundai) competitiveness in autonomous driving via the commercialization of robotaxis, and Hyundai Home's expansion into the energy business, should serve as factors in the recovery of valuation.

Share price outlook and valuation

We maintain Hyundai as a top-pick centered on OEMs in the automotive industry.

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 (%)
2020	103,998	2,395	1,424	6,580	5,806	-54.6	33.1	0.8	17.6	2.0	1.6
2021	117,611	6,679	4,942	11,235	21,719	274.1	9.6	0.8	12.0	6.8	2.4
2022F	140,672	9,236	7,848	14,320	35,306	62.6	4.7	0.6	8.8	9.9	3.0
2023F	146,621	10,598	9,471	16,357	42,877	21.4	3.9	0.5	7.4	10.8	3.1
2024F	150,720	11,079	9,924	17,210	44,966	4.9	3.7	0.5	6.7	10.3	3.2

Note: K-IFRS, consolidated

Fig 1. Hyundai Motor Company 3Q22 review

(KRW bn,%,%p)	Quarterly Earnings			Percentage Change		Estimates		Consensus	
	3Q22P	3Q21	2Q22	(yoy)	(qoq)	3Q22F	Differene (%)	3Q22F	Difference (%)
Sales	37,705.4	28,867.2	35,999.9	30.6	4.7	36,052.1	4.6	36,141.4	4.3
Operating profit	1,551.8	1,606.7	2,979.8	(3.4)	(47.9)	1,918.4	(19.1)	2,846.5	(45.5)
Pretax profit	2,042.0	1,937.0	3,888.8	5.4	(47.5)	2,699.9	(24.4)	3,431.4	(40.5)
Net profit	1,271.6	1,306.3	2,803.5	(2.7)	(54.6)	1,904.1	(33.2)	2,397.1	(47.0)
Operating margin (%)	4.1	5.6	8.3	(1.5)	(4.2)	5.3	(1.2)	7.9	(3.8)
Pretax margin (%)	5.4	6.7	10.8	(1.3)	(5.4)	7.5	(2.1)	9.5	(4.1)
Net margin (%)	3.4	4.5	7.8	(1.2)	(4.4)	5.3	(1.9)	6.6	(3.3)

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

Fig 2. Earnings revisions

(KRW bn)	Revised		Previous		%change	
	2022F	2023F	2022F	2023F	2022F	2023F
Sales	140,672	146,621	139,547	145,986	0.8%	0.4%
Operating profit	9,236	10,598	9,846	11,490	-6.2%	-7.8%
Pretax profit	11,168	13,395	12,092	14,528	-7.6%	-7.8%
Net profit	8,678	10,408	9,395	11,289	-7.6%	-7.8%

Source: Hyundai Motor Securities

Fig 3. Fairvaluation

		Note
12M-fwd net profit attributable to controlling interest (KRW bn) - ①	8,466.4	HMS estimate
Target P/E (x) - ②	6.5	30% discount to KOSPI's 12-month-forward P/E 9.2x (recent 1 month average)
Target market cap (common + preferred stock) - ③	54,642.3	① X ②
Preferred stock's market cap as % of total market cap - ④	12.4%	Basis stock price(October 24, 2022)
Common stock target market cap (KRW bn) - ⑤	47,857.0	② X (1 - ④)
# of common stock ('000 shares) - ⑥	213,668	Including treasury shares
Common stock fair value per share (KRW)	240,000	⑤ ÷ ⑥
Target price (KRW)	240,000	Common stock target P/E 8.6x, 33.3% compared to KOSPI's 12-month-forward P/E
December 9 close (KRW)	162,500	Basis stock price(December 9, 2022)
Upside potential (%)	47.7%	
Rating	BUY	

Source: Company data, Hyundai Motor Securities

Income statement

(Unit:bn)	2020	2021	2022F	2023F	2024F
Sales	103,998	117,611	140,672	146,621	150,720
Change (%)	-1.7	13.1	19.6	4.2	2.8
Cost of goods sold	85,516	95,680	112,886	118,359	121,368
of sales	82.2	81.4	80.2	80.7	80.5
Gross profit	18,482	21,930	27,785	28,261	29,352
Gross margin (%)	17.8	18.6	19.8	19.3	19.5
Change (%)	4.7	18.7	26.7	1.7	3.9
SG&A expenses	16,087	15,252	18,549	17,663	18,274
of sales	15.5	13.0	13.2	12.0	12.1
EBITDA	6,580	11,235	14,320	16,357	17,210
EBITDA margin (%)	6.3	9.6	10.2	11.2	11.4
Change (%)	-11.5	70.7	27.5	14.2	5.2
Operating profit	2,395	6,679	9,236	10,598	11,079
Operating margin (%)	2.3	5.7	6.6	7.2	7.4
Change (%)	-33.6	178.9	38.3	14.7	4.5
Non-operating profit	-464	-22	73	242	224
Interest income	814	913	1,134	1,072	1,114
Interest expenses	956	548	741	592	638
Other non-operating income	-322	-387	-320	-238	-252
Subsidiaries/affiliate income	162	1,303	1,859	2,556	2,732
Pretax profit from cont ops	2,093	7,960	11,168	13,395	14,035
Pretax margin (%)	2.0	6.8	7.9	9.1	9.3
Change (%)	-49.7	280.3	40.3	19.9	4.8
Income tax	169	2,266	2,491	2,987	3,130
Profit from continuing ops	1,925	5,693	8,678	10,408	10,905
Profit from discontinuing ops	0	0	0	0	0
Net profit	1,925	5,693	8,678	10,408	10,905
Net margin (%)	1.9	4.8	6.2	7.1	7.2
Change (%)	-39.6	195.7	52.4	19.9	4.8
NP from controlling interest	1,424	4,942	7,848	9,471	9,924
NP from non-controlling interest	500	751	830	937	981
Other comprehensive income	-1,022	2,168	2,854	0	0
Total comprehensive income	903	7,861	11,532	10,408	10,905

Cash flow statement

(KRW bn)	2020	2021	2022F	2023F	2024F
Operating cash flow	-410	-1,176	13,823	14,731	15,712
Net profit	1,925	5,693	8,678	10,408	10,905
Depreciation on tangible assets	2,750	2,938	3,230	3,789	4,124
Amortization on intangible assets	1,436	1,618	1,855	1,970	2,007
FX-related profit	136	31	-194	0	0
Dec (inc) in working capital	-16,992	-20,288	-3,542	1,120	1,408
Others	10,335	8,832	3,796	-2,556	-2,732
Investing cash flow	-9,338	-5,183	-6,052	-7,663	-7,758
Dec (inc) in investment assets	-591	-1,546	-2,100	104	78
Decrease in tangible assets	134	113	147	124	124
Increase in tangible assets (capex)	-4,688	-4,304	-3,458	-3,228	-3,228
Others	-4,193	554	-641	-4,663	-4,732
Financing cash flow	11,352	8,792	6,215	8,733	9,911
Increase (decrease) in debt	1,800	-2,460	1,948	-40	-40
Increase (decrease) in bond	6,990	14,663	8,149	8,475	8,814
Increase in capital	-7	-120	0	0	0
Dividend	-894	-1,187	-1,301	-1,318	-1,344
Others	3,463	-2,104	-2,581	1,616	2,481
Other cash flow	-425	500	870	0	0
Increase (decrease) in cash	1,180	2,933	14,855	15,801	17,865
Beginning cash	8,682	9,862	12,796	27,651	43,452
Ending cash	9,862	12,796	27,651	43,452	61,317

Note: K-IFRS Consolidated

Balance sheet

(KRW bn)	2020	2021	2022F	2023F	2024F
Current assets	51,090	53,313	70,014	86,507	105,216
Cash and cash equivalents	9,862	12,796	27,651	43,452	61,317
Short-term investment assets	7,345	7,052	7,589	7,650	7,711
Accounts receivable	3,284	3,147	3,806	3,938	4,103
Inventory assets	11,334	11,646	13,559	14,029	14,618
Other current assets	6,494	6,378	7,131	7,160	7,189
Non-current assets	88,589	99,605	106,457	109,790	113,009
Tangible assets	34,092	35,543	35,765	35,080	34,060
Intangible assets	5,678	5,847	5,712	5,823	5,933
Investment assets	22,766	26,275	29,533	31,985	34,640
Other non-current assets	26,053	31,940	35,447	36,902	38,376
Other financial assets	69,665	81,029	88,470	89,536	90,615
Total assets	209,344	233,946	264,940	285,833	308,840
Current liabilities	59,460	64,237	72,954	75,793	79,804
Short-term debt	13,781	13,088	12,101	12,101	12,101
Accounts payable	8,793	9,155	10,185	10,539	10,981
Current portion of long-term debt	16,104	20,579	25,347	26,954	29,424
Other current debt	20,782	21,415	25,321	26,199	27,298
Non-current liabilities	73,544	87,094	99,481	108,444	117,879
Bonds	48,795	63,459	71,608	80,082	88,896
Long-term debt	12,727	10,668	12,627	12,587	12,547
LT financial debt (incl. lease)	434	33	21	21	21
Other non-current debt	11,588	12,934	15,225	15,754	16,415
Other financial liabilities	0	0	0	0	0
Total liabilities	133,003	151,331	172,435	184,237	197,683
Owners of parent equity	69,481	74,986	83,762	91,916	100,496
Paid-in capital	1,489	1,489	1,489	1,489	1,489
Capital surplus	4,190	4,070	4,070	4,070	4,070
Capital adjustment, etc.	-1,701	-1,968	-2,162	-2,162	-2,162
Other accumul earnings and comp income	-3,410	-1,773	568	568	568
Retained earnings	68,912	73,168	79,797	87,950	96,531
Non-controlling interest	6,860	7,630	8,743	9,679	10,661
Total equity	76,341	82,616	92,505	101,595	111,157

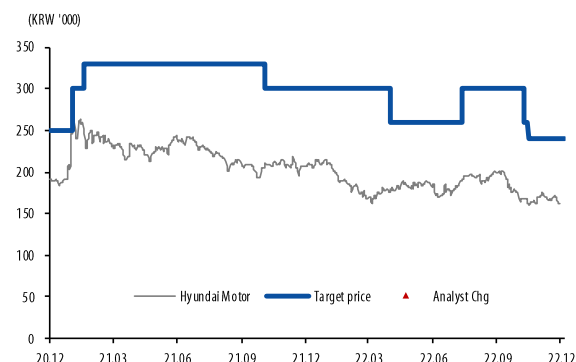
Key financial data

(Unit:Won, X, %)	2020	2021	2022F	2023F	2024F
EPS (based on net profit)	8,147	25,233	39,191	47,261	49,560
EPS (based on parent net profit)	5,806	21,719	35,306	42,877	44,966
BPS (based on total equity)	275,660	298,318	334,027	366,851	401,378
BPS (based on owners of parent equity)	250,888	270,768	302,458	331,900	362,882
DPS	3,000	5,000	5,100	5,200	5,300
P/E (based on net profit)	23.6	8.3	4.1	3.4	3.3
P/E (based on parent net profit)	33.1	9.6	4.6	3.8	3.6
P/B (based on total equity)	0.7	0.7	0.5	0.4	0.4
P/B (based on owners of parent equity)	0.8	0.8	0.5	0.5	0.4
EV/EBITDA (reported)	17.6	12.0	8.7	7.3	6.6
Dividend yield	1.6	2.4	3.2	3.2	3.3
Growth (%)					
EPS (based on net profit)	-40.8	209.7	55.3	20.6	4.9
EPS (based on parent net profit)	-54.6	274.1	62.6	21.4	4.9
Profitability (%)					
ROE (based on net profit)	2.5	7.2	9.9	10.7	10.3
ROE (based on parent net profit)	2.0	6.8	9.9	10.8	10.3
ROA	1.0	2.6	3.5	3.8	3.7
Stability (%)					
Total liabilities/equity	174.2	183.2	186.4	181.3	177.8
Net debt/equity	81.4	91.9	82.7	69.5	57.6
Interest coverage	6.6	21.9	19.9	19.5	18.8

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
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	-34.59	-27.17
2022.04.11	BUY	260,000	-30.22	-27.12
2022.07.22	BUY	300,000	-36.74	-32.67
2022.10.19	BUY	260,000	-36.28	-35.19
2022.10.25	BUY	240,000	-30.37	-26.67
2022.12.12	BUY	240,000		

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 (2021.10.01-2022.09.30)

Rating	Count	% of rating category
BUY	168	90.8
MARKETPERFORM	17	9.2
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.