

The Vanguard of the Korean Invasion

Analyst Dongjin Kang

+822-3787-2228 dongjinkang@hmsec.com

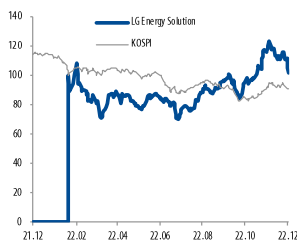
Share price (Dec 09)	515,000
Upside (%)	31.1
Market Cap (KRW bn)	120,510
Shares outstanding ('000)	234,000
Paid-in capital(KRW bn)/Face value (KRW)	117/500
52-week high/low (KRW)	624,000/356,000
60-day avg. daily T/O (KRW bn)	210
Foreign ownership (%)	5.13
Major shareholders (%)	LG Chem and 1 others 81.84

Price performance	1M	3M	6M
Absolute (%)	-14.0	5.9	21.9
Relative (%p)	-12.8	5.6	34.0

K-IFRS, consolidated

(KRW)	EPS(22F)	EPS(23F)	T/P
Previous	3,840	9,069	675,000
Revised	3,840	9,069	675,000
Consensus	3,835	7,447	651,870
Difference (%)	0.1%	21.8%	3.5%

12-month price performance



Source: FnGuide, Hyundai Motor Securities

Investment highlights

- Battery Shortage Deepens. No. 1 Non-China Battery Company Premium is valid. Continuing to improve profitability
- Cash flow is expected to improve significantly depending on AMPC benefit level. Stock Price Premium expansion is expected.
- Japanese OEM/battery industries have difficulty under IRA. Companies from Korea will continue to expand its market share in the U.S
- Profitability is expected to improve year-on-year due to reducing the proportion of less profitable Legacy projects, expanding large-scale of cylindrical battery factories, and improving ESS performance. We maintain the company as the top pick of secondary battery industry.

Major issues and earnings outlook

- The battery industry, which needs funds for large-scale investment, has become difficult to raise funds due to the recent tightening of the financial market, and because European startups that originally expected to enter the market have not reached the mass production stage, and supply shortages are visible due to delayed mass production of next-generation batteries. In addition, as the U.S. electric vehicle market is blooming due to IRA, the battery supply in the U.S. is further reduced due to restrictions on use of batteries from China.
- Lack of battery supply is making an environment in which contracts that can secure stable profitability can increase. Therefore, the trend of incremental profitability will continue
- The company is expected to keep expanding U.S. market share. In addition, as the proportion of sales of existing Legacy projects decreases and U.S.-oriented sales grow, the profitability of pouch batteries for EVs is expected to gradually improve
- We expect significant improvement in terms of net profit and cash flow if AMPC benefit details are identified
- Concerns over the recent slowdown in Tesla's sales in China are limited. Tesla is continuing its new plant ramp-up, including Giga Berlin. It is also expected that the 3Q22 Tesla Highland project will make the sales price lower visible. Cost-effectiveness is expected to improve
- 4Q22 performance will be similar to the previous quarter due to inventory adjustments by customers, but 2023 performance is expected to record 38.5 trillion won (+55.8% yoy) in sales and 314.6 billion won (+109.0% yoy) in operating profit due to large-scale capa expansion of cylindrical batteries (60GWh → 100GWh), 1st mass production of Ultium Cells in the U.S., and completion of coping with recall from GM. The margin rate is expected to improve as the proportion of unprofitable projects decreases and the proportion of cylindrical batteries increases. We prospect the performance to exceed the consensus
- The automobile-oriented demand in the entire oil market is 2,000 trillion won/year. The battery business will take much from this market. In addition, the use of electricity using fossil energy is also a potential battery market. The market capitalization of dominant businesses in the oligopolized market has sufficient possibility to rise in this energy industry scale

Share price outlook and valuation

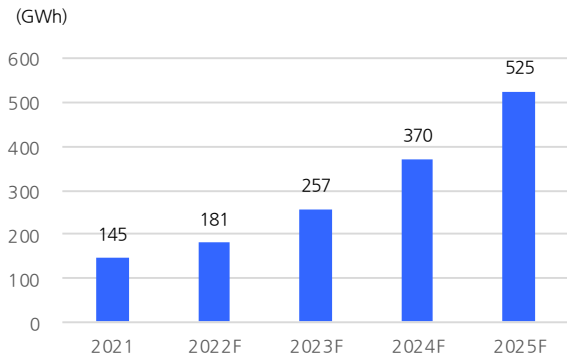
Stock prices are being adjusted due to short-term valuation burdens and supply and demand burdens caused by soaring stock prices. The premium for the No. 1 company in the mid- to long-term is valid, and the biggest beneficiary under IRA is also valid. In the future, the determination of AMPC benefits size and improvement of profitability will be the stock price momentum.

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	1,461	-475	-456	-360	-2,278	N/A	0.0	0.0	NA	NA	N/A
2021	17,852	768	793	2,220	3,963	RB	0.0	0.0	2.9	10.7	N/A
2022F	24,694	1,505	891	3,413	3,840	-3.1	138.3	6.3	41.0	6.4	0.0
2023F	38,461	3,146	2,122	6,014	9,069	136.2	58.6	5.7	24.1	10.2	0.0
2024F	53,520	4,681	3,120	8,243	13,331	47.0	39.8	5.0	17.9	13.3	0.0

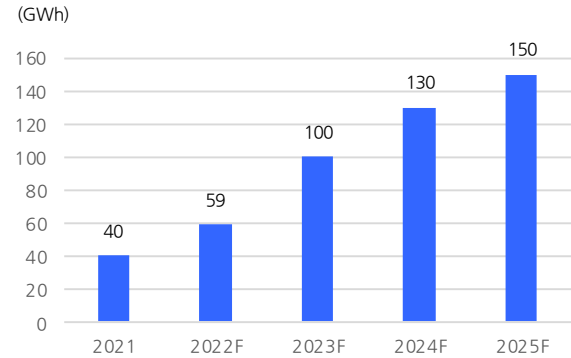
Note: K-IFRS, consolidated

Fig 1. Prediction of Battery Capa for EVs



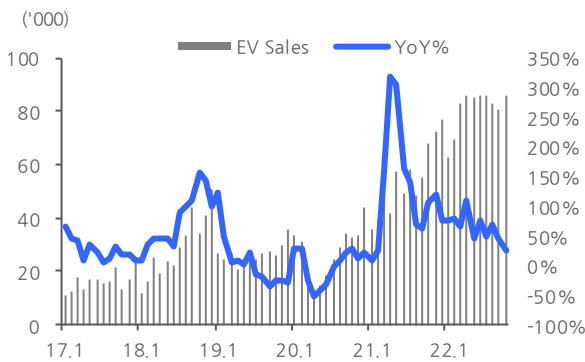
Source: LGES, Hyundai Motor Securities

Fig 2. Prediction of Cylindrical Battery Capa



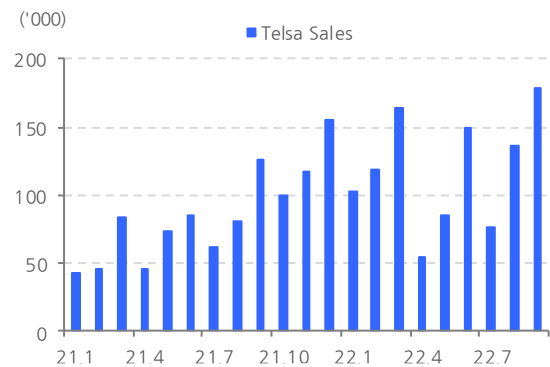
Source: LGES, Hyundai Motor Securities

Fig 3. EV Sales in U.S.



Source: Marklines, Hyundai Motor Securities

Fig 4. Tesla Sales Worldwide



Source: Marklines, Hyundai Motor Securities

Fig 5. Quarterly earnings forecasts

(KRW bn)	2021	2022F	2023F	1Q22	2Q22	3Q22	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F
Sales	17,852.0	24,693.7	38,461.1	4,342.3	5,070.6	7,648.2	7,632.5	8,783.1	8,843.1	10,186.6	10,648.2
Automobile(Medium and large)	11,803.8	13,603.7	23,007.6	2,260.1	2,606.7	4,359.5	4,377.4	5,105.1	5,246.2	5,988.0	6,668.3
ESS	1,013.4	2,049.7	2,683.1	369.3	422.4	611.9	646.1	498.6	549.2	795.4	840.0
Small(Including automotive cylindrical)	5,034.4	9,040.2	12,770.4	1,712.9	2,041.5	2,676.9	2,609.1	3,179.5	3,047.8	3,403.3	3,139.9
(yoy)											
Sales	44.5%	38.3%	55.8%	2.1%	-1.2%	89.9%	71.9%	102.3%	74.4%	33.2%	39.5%
Automobile(Medium and large)	48.2%	15.2%	69.1%	-21.2%	-31.5%	73.6%	66.8%	125.9%	101.3%	37.4%	52.3%
ESS	-4.8%	102.3%	30.9%	9.7%	97.2%	174.2%	170.0%	35.0%	30.0%	30.0%	30.0%
Small(Including automotive cylindrical)	51.4%	79.6%	41.3%	63.0%	83.3%	107.0%	65.5%	85.6%	49.3%	27.1%	20.3%
Operating profit	768.5	1,505.6	3,146.4	258.9	195.6	521.9	529.2	667.1	669.2	893.4	916.7
(yoy, %)	RB	95.9%	109.0%	-24.1%	-73.0%	RB	598.7%	157.7%	242.2%	71.2%	73.2%
(OPM)	4.3%	6.1%	8.2%	6.0%	3.9%	6.8%	6.9%	7.6%	7.6%	8.8%	8.6%
Automobile(Medium and large)				40.7	13.0	209.3	249.5	270.6	314.8	419.2	533.5
ESS				-13.0	-7.3	4.8	16.2	15.0	19.2	31.8	37.8
Small(Including automotive cylindrical)				231.2	189.9	307.8	263.5	381.5	335.3	442.4	345.4
Pretax profit from cont ops		1,143.0	3,143.9	259.7	128.8	241.6	513.0	673.8	667.0	891.6	911.4
(yoy, %)			175.1%	-13.6%	-84.6%	RB	248.2%	159.5%	418.1%	269.1%	77.7%
NP from controlling interest		891.3	2,122.1	226.6	94.2	185.7	384.7	454.8	450.2	601.9	615.2
(yoy, %)			138.1%	-38.9%	-84.6%	-20.4%	814.3%	100.7%	378.2%	224.0%	59.9%

Source: LGES, Hyundai Motor Securities

Income statement

(KRW bn)	2020	2021	2022F	2023F	2024F
Sales	1,461	17,852	24,694	38,461	53,520
Change (%)	N/A	1,121.9	38.3	55.8	39.2
Cost of goods sold	1,237	13,953	20,301	30,924	42,729
of sales (%)	84.7	78.2	82.2	80.4	79.8
Gross profit	224	3,899	4,392	7,537	10,791
Gross margin (%)	15.3	21.8	17.8	19.6	20.2
Change (%)	N/A	1,640.6	12.6	71.6	43.2
SG&A expenses	699	3,130	2,887	4,391	6,110
of sales (%)	47.8	17.5	11.7	11.4	11.4
EBITDA	-360	2,220	3,413	6,014	8,243
EBITDA margin (%)	-24.6	12.4	13.8	15.6	15.4
Change (%)	N/A	RB	53.7	76.2	37.1
Operating profit	-475	768	1,505	3,146	4,681
Operating margin (%)	-32.5	4.3	6.1	8.2	8.7
Change (%)	N/A	RB	96.0	109.0	48.8
Non-operating profit	-131	21	-337	-3	-59
Interest income	29	340	532	145	138
Interest expenses	139	295	790	148	197
Other non-operating income	-21	-24	-79	0	0
Subsidiaries/affiliate income	1	-12	-25	0	0
Pretax profit from cont ops	-605	777	1,143	3,144	4,622
Pretax margin (%)	-41.4	4.4	4.6	8.2	8.6
Change (%)	N/A	RB	47.1	175.1	47.0
Income tax	-147	77	254	786	1,155
Profit from continuing ops	-458	701	889	2,358	3,466
Profit from discontinuing ops	6	229	0	0	0
Net profit	-452	930	889	2,358	3,466
Net margin (%)	-30.9	5.2	3.6	6.1	6.5
Change (%)	N/A	RB	-4.4	165.2	47.0
NP from controlling interest	-456	793	891	2,122	3,120
NP from non-controlling interest	4	137	-2	236	347
Other comprehensive income	-18	509	1,068	0	0
Total comprehensive income	-470	1,438	1,957	2,358	3,466

Cash flow statement

(KRW bn)	2020	2021	2022F	2023F	2024F
Operating cash flow	395	979	637	3,240	5,919
Net profit	-452	930	889	2,358	3,466
Depreciation on tangible assets	111	1,379	1,813	2,767	3,462
Amortization on intangible assets	5	73	94	100	100
FX-related profit	0	0	0	0	0
Dec (inc) in working capital	178	-2,407	-2,826	-1,986	-1,110
Others	553	1,004	667	1	1
Investing cash flow	-885	-2,178	-9,615	-6,826	-7,136
Dec (inc) in investment assets	-108	-357	-300	-31	-34
Decrease in tangible assets	4	59	8	0	0
Increase in tangible assets (capex)	-260	-3,463	-6,127	-8,000	-8,000
Others	-521	1,583	-3,196	1,205	898
Financing cash flow	-203	883	10,838	2,000	2,000
Increase (decrease) in debt	3,077	-414	738	2,000	2,000
Increase (decrease) in bond	1,944	102	-420	0	0
Increase in capital	7,331	-109	10,059	0	0
Dividend	0	0	-37	0	0
Others	-12,555	1,304	498	0	0
Other cash flow	-14	106	200	0	0
Increase (decrease) in cash	-707	-210	2,060	-1,586	784
Beginning cash	2,200	1,493	1,283	3,342	1,756
Ending cash	1,493	1,283	3,342	1,756	2,540

Note: K-IFRS, consolidated

Balance sheet

(KRW bn)	2020	2021	2022F	2023F	2024F
Current assets	9,086	9,536	19,624	22,527	29,195
Cash and cash equivalents	1,493	1,283	3,342	1,756	2,540
Short-term investment assets	624	23	3,363	2,058	1,060
Accounts receivable	2,931	2,914	4,361	6,655	9,234
Inventory assets	3,043	3,896	6,784	9,905	13,748
Other current assets	994	1,420	1,762	2,141	2,603
Non-current assets	10,856	14,228	19,793	25,056	29,627
Tangible assets	8,684	11,051	15,746	20,978	25,516
Intangible assets	326	455	527	527	526
Investment assets	109	481	869	900	934
Other non-current assets	1,737	2,241	2,651	2,651	2,651
Other financial assets	0	0	0	0	0
Total assets	19,942	23,764	39,417	47,583	58,822
Current liabilities	6,889	9,474	11,937	15,481	20,843
Short-term debt	794	1,146	1,704	1,704	1,704
Accounts payable	2,592	2,178	4,182	5,835	8,475
Current portion of long-term debt	329	1,057	1,506	1,506	1,506
Other current debt	3,174	5,093	4,545	6,436	9,158
Non-current liabilities	5,487	5,548	5,932	8,197	10,607
Bonds	1,944	2,046	1,626	1,626	1,626
Long-term debt	3,077	2,663	3,390	5,390	7,390
LT financial debt (incl. lease)	0	0	11	11	11
Other non-current debt	466	839	905	1,170	1,580
Other financial liabilities	0	0	0	0	0
Total liabilities	12,376	15,022	17,869	23,677	31,450
Owners of parent equity	6,879	7,966	19,707	21,830	24,949
Paid-in capital	100	100	117	117	117
Capital surplus	7,231	7,122	17,165	17,165	17,165
Capital adjustment, etc.	0	0	0	0	0
Other accumul earnings and comp income	1	406	1,074	1,074	1,074
Retained earnings	-453	338	1,352	3,474	6,594
Non-controlling interest	686	776	1,841	2,076	2,423
Total equity	7,565	8,742	21,548	23,906	27,372

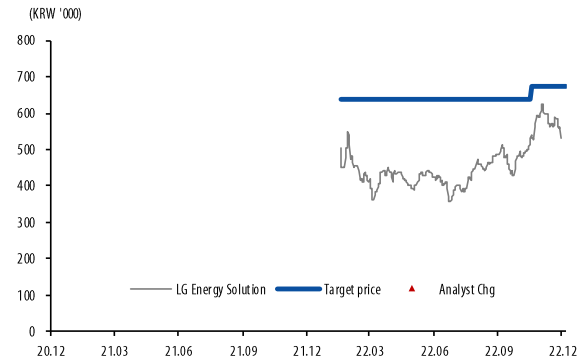
Key financial data

(KRW, x, %)	2020	2021	2022F	2023F	2024F
EPS (based on net profit)	-2,259	4,649	3,830	10,076	14,813
EPS (based on parent net profit)	-2,278	3,963	3,840	9,069	13,331
BPS (based on total equity)	37,827	43,712	92,086	102,162	116,975
BPS (based on owners of parent equity)	34,398	39,831	84,220	93,289	106,620
DPS	0	0	0	0	0
P/E (based on net profit)	0.0	0.0	138.6	52.7	35.8
P/E (based on parent net profit)	0.0	0.0	138.3	58.6	39.8
P/B (based on total equity)	0.0	0.0	5.8	5.2	4.5
P/B (based on owners of parent equity)	0.0	0.0	6.3	5.7	5.0
EV/EBITDA (reported)	-13.2	2.9	41.0	24.1	17.9
Dividend yield	N/A	N/A	0.0	0.0	0.0
Growth (%)					
EPS (based on net profit)	N/A	RB	-17.6	163.1	47.0
EPS (based on parent net profit)	N/A	RB	-3.1	136.2	47.0
Profitability (%)					
ROE (based on net profit)	-6.0	11.4	5.9	10.4	13.5
ROE (based on parent net profit)	-6.6	10.7	6.4	10.2	13.3
ROA	-2.3	4.3	2.8	5.4	6.5
Stability (%)					
Total liabilities/equity	163.6	171.8	82.9	99.0	114.9
Net debt/equity	53.8	64.1	7.1	26.8	31.5
Interest coverage	NA	11.5	14.4	21.3	23.7

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
2022.01.28	BUY	640,000	-34.41	-14.38
2022.07.28	AFTER 6M	640,000	-26.76	-17.34
2022.10.27	BUY	675,000	-14.49	-7.56
2022.12.09	BUY	675,000		

Two-year price chart



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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

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