

Only the strong survive

[Finance](#), [Investment](#)



January 17, 2013 Industry Report Shipbuilding (Neutral) Only the strong survive Offshore orders to drive growth The shipbuilding industry is in a situation similar to that of 2002. In 2013, plunging order volume and weak new building prices are fueling intensifying competition. In 2002, shipbuilding shares rose because of an increase in orders, but then quickly fell on concerns over weak new building prices, which caused earnings to stagnate. For a period in 2002, shipbuilders went into red. There is a big difference between the shipbuilding market of 2002 and 2013, however.

In 2013, a few, major shipbuilders with an edge in the construction of offshore plants are expanding order backlogs due to growing demand for offshore plants. We anticipate investments in offshore E&P projects will continue to rise, as we expect oil prices will remain high. We anticipate major shipbuilders will offset sluggishness in the commercial vessels market with their offshore-plant businesses. Daewoo Securities Co. , Ltd. Ki-jong Sung +822-768-3263 kijong.com Ryan Kang +822-768-3065 ryan.om Three major catalysts in 2013 1) Increase in new orders despite depressed market conditions. 2) Improved cash flow and balance sheets. 3) Growing competitive gap between shipbuilders due to accelerated restructuring. Historic low P/B presents attractive valuations We expect Korean shipbuilders will be able to maintain their competitive edge regardless of the depressed shipbuilding market. Although shipbuilding shares currently trade at a P/B of 1. 0x, we believe they have the potential trade at a P/B of 1. 2x.

We recommend Hyundai Heavy Industries (009540 KS/Buy/TP: W280, 000), and Samsung Heavy Industries (010140 KS/Buy/TP: W46, 200) out of the

<https://assignbuster.com/only-the-strong-survive/>

large shipbuilders. We find Hyundai Mipo Dockyard (010620 KS/Buy/TP: W148, 000) to be the best among shipbuilders that focus on mid-to-small vessels. We raise our target price on Samsung Heavy Industries by 5% to W46, 200 to reflect its stable earnings and solid order flow; however, we downgrade our rating of Hanjin Heavy I&C (097230 KS/Hold) from Trading Buy to Hold. Three major domestic shipbuildersE cash flow and share performance (Wbn) 10, 000 Avg. ash flow of major shipbuilders (L) Avg. share price of major shipbuilders (R) (1/31/2005= 100) 1, 000 6, 000 800 600 2, 000 400 -2, 000 200 -6, 000 05 06 07 08 09 10 11 12 13F 13 14 14F 0

Source: KDB Daewoo Securities Research Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the U. S. January 17, 2013 Shipbuilding Figure 1. New orders and newbuilding price for commercial vessels (mnCGT) 100 New orders (L) Newbuilding price (R) 80 180 160 60 140 40 120 20 100 80 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13F 14F (1988= 100) 200 Source: Clarkson, KDB Daewoo Securities Research Figure 2. Three major domestic shipbuildersE order trend and forecast (Wbn) 70, 000 60, 000 50, 000 40, 000 30, 000 20, 000 10, 000 0 01 02 03 04 05 06 07 08 09 10 11 12 13F Shipbuilding Non-shipbuilding Source: Company data, KDB Daewoo Securities Research Figure 3. KOSPI and shipbuilding stock index trend (1/1999= 100) 1, 000 KOSPI Shipbuilding stock index 800 600 400 200 0 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13F 13 14F 14 Source: KDB Daewoo Securities Research

KDB Daewoo Securities Research 2 January 17, 2013 Shipbuilding Three major catalysts in 2013 1. New orders for major Korean shipbuilders to increase sharply In 2013, we expect major Korean shipbuilders will see sharp

increases in new orders. Despite intensifying competition, these companies have demonstrated competitive advantages in the construction of large commercial vessels and offshore plants. We expect demand for LNG carriers will remain sound, and anticipate orders for mega-containerships will also increase.

We expect the latter to be driven by small- and mid-sized shipping companies improving their competitiveness through greater efficiency. We also expect shipbuilders will be forced to take new orders at lower-than-normal prices because of the dearth of order backlogs for commercial vessels. We forecast the number of bids and orders for large offshore-plant construction projects to increase for each company in 2013. In particular, we expect orders for certain high-priced vessels, including FPSO and LNG FPSO, to increase. 2.

Improved cashflow and balance sheets Since 2009, shipbuilders have taken out more loans for more orders as the proportion of heavy-tail payments (characterized by small advance payments) has increased. On a positive note, however, we expect shipbuilder loans to decrease (thus improving cashflow) as these contracts are paid off toward late 2013. We believe share prices will improve (despite concerns about lower-priced orders) thanks to increasing orders, and improved cashflow. Share prices for shipbuilders will be influenced by cashflow.

Despite intensifying market competition, we anticipate Hyundai Mipo Dockyard will take an increasing amount of orders, even though some will be lower-priced. 3. Second phase of restructuring to further consolidate industry We anticipate the shipbuilding market will remain weak due to the global

economic downturn, and the tightening of ship financing. We project the current, still-surviving shipbuilding companies will aggressively seek new orders to strengthen backlogs. We believe the winners of this second phase of restructuring will benefit significantly when the market recovers.

Amid the current drop in vessel construction, the percentage of bulk carriers and tankers (out of total orders) has decreased significantly, while the percentage of megacontainerships and LNG carriers has increased. We expect these trends will continue in 2013. We also anticipate major Korean shipbuilders will be able to develop new types of vessels boasting improved efficiency, which will strengthen these companies' competitiveness. Risk factors Earnings at shipbuilders will not recover easily, due to orders at lower-than-normal prices and won appreciation. In order to secure backlogs, shipbuilders will need to take low price orders. Another risk factor is won appreciation, but at current levels, we believe risks are limited, thanks to Korean shipbuilders' technological edge, and dollar denominated payment for raw materials, which accounts for 40% of total raw material purchase.

KDB Daewoo Securities Research 3 January 17, 2013 Shipbuilding Figure 4. Three major domestic shipbuilders' cash flow and share performance (Wbn)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014	2014F
Avg. cash flow of major shipbuilders (L)	10,000	6,000	800	600	2,000	400	-2,000	00	-6,000	05	06
Avg. share price of major shipbuilders (R) (1/31/2005= 100)	1,000	6,000	800	600	2,000	400	-2,000	00	-6,000	05	06

Source: Company data, KDB Daewoo Securities Research Figure 5. Korean and Chinese shipbuilders' restructuring (No. of shipbuilders)

Year	2008	2012
Korea	160	197
China	120	-88.3%

Source: Clarkson, press release, KDB Daewoo Securities Research Figure 6. Comparison of currency rates

(10/2/2012= 100) 105 US\$/W JPY100/W EUR/W RMB/W 100 95 90 85 80
 10/12 11/12 12/12 1/13 Source: KOSTAT, KDB Daewoo Securities Research
 KDB Daewoo Securities Research 4 January 17, 2013 Shipbuilding
 Investment strategy & valuation

We believe the P/B of KoreaEs top 3 shipbuilders, which is trading at around 1. 0x, should rebound to 1. 2x, a level seen historically as the low, thanks to the aforementioned three major catalysts. In addition, the ROE of shipbuildersE is projected to improve to 19%. And as most new orders are expected in 1H, shares are likely to show strong performance in the same period. The relative share performance of global shipbuilders has changed. Thanks to the rising proportion of offshore orders, Korean shipbuilders and Hyundai Mipo Dockyard are now grouped together with Keppel Corp. and Sembcorp Marine (Singapore companies specialized in offshore plant). In light of the ongoing eurozone crisis and unstable global economy, shipbuilding shares are expected to trade between a P/B of 1. 0x~1. 3x. Although we believe the shares have bottomed, we do not expect a long term recovery until new building prices rebound in earnest. We suggest accumulating the shares near a P/B of 1. 0x. Shipbuilding shares will likely begin to recover full-swing from 2014, when the market starts to turnaround, along with increased orders for commercial vessels, improved cashflow, and earnings recovery.

Figure 7. Major shipbuildersE ROE, P/B trends (Market cap, Wtr) 4. 0x (%) 50
 3. 0x 40 90 60 2. 0x 30 20 30 1. 0x 10 0 05 07 09 11 13 13F 0 Source:
 Bloomberg, KDB Daewoo Securities Research Figure 8. Relative share
 performances of major shipbuilders (-1Y= 100) 150 140 130 120 110 100 90

80 70 60 1/12 2/12 3/12 4/12 5/12 6/12 7/12 8/12 9/12 10/12 11/12 12/12
 1/13 HHI DSME HMD Guangzhou Shipyard Keppel Corp. SHI STX Offshore &
 Shipbuilding Rongsheng Heavy Sembcorp Marine Source: Bloomberg, KDB
 Daewoo Securities Research KDB Daewoo Securities Research 5 January 17,
 2013 Shipbuilding Figure 9.

New order trends (US\$bn) 30 25 20 15 10 5 0 03 04 05 06 07 08 09 10 11 12
 HHI SHI HMD Figure 10. Order backlog trends (US\$bn) 60 50 40 30 20 10 0
 07 08 09 10 11 12 HHI SHI HMD Source: Company Data, KDB Daewoo
 Securities Research Source: Company Data, KDB Daewoo Securities
 Research Figure 11. Sales breakdown by business unit (Wtr) 70 60 50 40 30
 20 10 0 10 HHI 11 10 SHI 11 Construction Other Refinery Finance Green
 energy Electro electric systems Construction equipment Engine & machinery
 Industrial plant & engineering Offshore & engineering Shipbuilding Figure 12.
 Hyundai Heavy IndustriesE P/B trend Market cap, Wbn) 42, 000 35, 000 28,
 000 21, 000 14, 000 7, 000 0 00 01 02 03 04 05 06 07 08 09 10 11 12 13F
 13 3. 0x 2. 5x 2. 0x 1. 5x 1. 0x Source: Company Data, KDB Daewoo
 Securities Research Source: KDB Daewoo Securities Research Figure 13.
 Samsung Heavy IndustriesE P/B trend (Market cap, Wbn) 14, 000 12, 000 10,
 000 8, 000 1. 0x 6, 000 4, 000 2, 000 0 00 01 02 03 04 05 06 07 08 09 10 11
 12 13 13F 2. 0x 6. 0x 4. 0x Figure 14. Hyundai Mipo DockyardEs P/B trend
 (Market cap, Wbn) 10, 000 2. 5x 8, 000 1. 5x 6, 000 2. 0x 1. 5x 4, 000 1. 0x
 2, 000 0. 5x 0 00 01 02 03 04 05 06 07 08 09 10 11 12 13 13F Source: KDB
 Daewoo Securities Research

Source: KDB Daewoo Securities Research KDB Daewoo Securities Research 6
 January 17, 2013 Shipbuilding Figure 15. Global new orders by vessel type

(mnCGT) 25 LPG carrier LNG carrier Containership 20 Bulker Tanker 15
 Figure 16. Newbuilding prices by vessel type (US\$'000/TEU) 30 Containership
 (L) Tanker (R) Gas carrier (R) Bulker (R) (US\$'000/DWT) 3 20 2 10 10 5 1 0 03
 04 05 06 07 08 09 10 11 12 0 04 05 06 07 08 09 10 11 12F 12 13F 13 0
 Source: Clarkson, KDB Daewoo Securities Research Source: Clarkson, KDB
 Daewoo Securities Research Figure 17. ROE-P/B comparison (P/B , x) 3. 0
 Figure 18.

EPS growth-P/E comparison (P/E, x) 20 Keppel 2. 0 Sembcorp Mitsubishi HHI
 1. 0 Guangzhou Sumitomo Mitsui (ROE, %) 0. 0 0 5 10 15 20 HMD S HI 15
 Keppel 10 S HI Sumitomo Sembcorp HHI 5 (EPS growth, %) 0 -40 -30 -20 -10
 0 10 20 30 40 Source: Bloomberg, KDB Daewoo Securities Research Source:
 Bloomberg, KDB Daewoo Securities Research Figure 19. Global shipbuildersE
 share performances (-1Y= 100) 160 HHI Mitsui SHI Guangzhou HMD
 Sembcorp CSSC Keppel Figure 20. KOSPI and shipbuilding stock index (index)
 8, 000 Shipbuilding stock index KOSPI 140 6, 000 120 4, 000 100 2, 000 80
 60 1/12 3/12 5/12 7/12 9/12 11/12 1/13 05 06 07 08 09 10 11 12 Source:
 Thomson Reuters, KDB Daewoo Securities Research Source: KDB Daewoo
 Securities Research KDB Daewoo Securities Research 7 January 17, 2013
 Shipbuilding Hyundai Heavy Industries (009540 KS) Buy (Maintain) Target
 Price (12M, W) 280, 000 Share Price (01/16/13, W) 227, 500 Expected Return
 (%) 23. 1 EPS Growth (13F, %) 17. 6 Market EPS Growth (13F, %) 19. 1 P/E
 (13F, x) 8. 5 Market P/E (13F, x) 9. 0 KOSPI 1, 977. 45 Market Cap (Wbn) 17,
 290 Shares Outstanding (mn) 76 Avg Trading Volume (60D, '000) 229 Avg
 Trading Value (60D, Wbn) 51 Dividend Yield (13F, %) 1. Free Float (%) 59. 3
 52-Week Low (W) 193, 500 52-Week High (W) 346, 500 Beta (12M, Daily

Rate of Return) 1. 46 Price Return Volatility (12M Daily, %, SD) 2. 1 Foreign Ownership (%) 19. 6 Major Shareholder(s) Mong-Jun Jung et al. (21. 31%) Treasury shares (19. 36%) NPS (5. 08%) Price Performance (%) 1M 6M 12M Absolute -1. 7 -3. 8 -20. 7 Relative -0. 9 -12. 6 -27. 1 One step back for two steps forward ? ? ? Targeting orders of US\$29. 7bn and revenues of W26. 9tr (non-consolidated) in 2013 Implemented a self-rescue plan for the first time in 40 years. Maintain Buy with TP of W280, 000

Maintain Buy with TP of W280, 000 We maintain our Buy call on Hyundai Heavy Industries (HHI) with a target price of W280, 000. HHI displayed weak share performance due to poor earnings and orders in 2012. However, we expect the company to record robust orders in 2013, boosted by a pickup in the offshore/onshore plant market. The company's earnings are anticipated to turn around in 2H13, while its cash flow should improve on massive orders and an increase in heavy-tail payments. HHI's shares are trading at a 2013F P/E of 8. 5x and a P/B of 1. 0x, the lowest levels in the company's peer group.

This tepid performance signals that weak 2012 orders and earnings results have been fully reflected. However, HHI has strong investment merits in 2013, as it is projected to win massive orders. Investment summary 1) The company exhibited poor orders across all business units last year, posting disappointing earnings results. In 2013, however, the company will be able to achieve its order target of US\$29. 7bn in light of its strong determination to revamp its business structure. 2) The company is anticipated to receive massive offshore/onshore plant orders.

In particular, the company will likely win orders for the Egina project (US\$2.5bn) and the Brass LNG project (US\$3.5bn) in 1Q. In addition, HHI is expected to bid for additional projects worth US\$1-4bn; indeed, we believe the company will be aggressive in its order-taking efforts. 3) Orders for merchant ships, including mega containerships, LNG carriers, and LNG FSRU, will likely increase markedly in light of their superior competitiveness. 4) Exports of construction equipment and ultra-high voltage transformers should also increase on recoveries in the US and Chinese economies.) The company has recently implemented a self-rescue plan for the first time in 40 years. While the number of applications for HHIEs early retirement plan (pushed through at end-2012) missed expectations, the company has subsequently carried out structural reform measures. We expect the company's long-term restructuring efforts to positively affect earnings going forward.

Share price	130	120	110	100	90	80	70	60	1/12	5/12	9/12	1/13
KOSPI Earnings & Valuation Metrics FY	12/10	12/11	12/12F	12/13F	12/14F							
Revenue (Wbn)	37,342	53,712	54,741	58,433	63,025	OP	OP	Margin (Wbn)				
(%)	5,532	14.8	4,536	8.4	2,485	4.5	3,331	5.7	3,782	6. NP (Wbn)	4,154	
	2,559	1,729	2,033	2,449	EPS	EBITDA	FCF	ROE	P/E (Won)	(Wbn)	(Wbn)	(%)
(x)	54,652	6,326	88	34.5	8.1	33,671	5,473	-504	16.7	7.6	22,750	3,469
	-2,260	10.2	10.6	26,750	4,320	2,005	11.1	8.5	32,218	4,768	2,297	12.2
	7.1	P/B (x)	2.5	1.3	1.1	1.1	0.9	EV/EBITDA (x)	6.5	5.3	8.5	6.2
	5.2											

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests Source: Company data, KDB Daewoo Securities Research estimates Daewoo Securities Research 8 January 17, 2013 Shipbuilding Hyundai Heavy Industries (009540 KS/Buy/TP: W280,000)

Comprehensive Income Statement (Summarized) Wbn) Revenues Cost of Sales Gross Profit SG Expenses Operating Profit (Adj) Operating Profit Non-Operating Profit Net Financial Income Net Gain from Inv in Associates Pretax Profit Income Tax Profit from Continuing Operations Profit from Discontinued Operations Net Profit Controlling Interests Non-Controlling Interests Total Comprehensive Profit Controlling Interests Non-Controlling Interests EBITDA FCF (Free Cash Flow) EBITDA Margin (%) Operating Profit Margin (%) Net Profit Margin (%) 12/11 53, 712 46, 784 6, 927 2, 392 4, 536 4, 536 -659 52 -148 3, 876 1, 133 2, 743 0 2, 743 2, 559 184 2, 617 2, 498 118 5, 473 -504 10. 8. 4 4. 8 12/12F 54, 741 49, 759 4, 981 2, 496 2, 485 2, 485 110 233 -240 2, 595 766 1, 829 0 1, 829 1, 729 100 1, 568 1, 458 110 3, 469 -2, 260 6. 3 4. 5 3. 2 12/13F 58, 433 52, 473 5, 960 2, 630 3, 331 3, 331 -448 248 -200 2, 882 749 2, 133 0 2, 133 2, 033 100 1, 872 1, 762 110 4, 320 2, 005 7. 4 5. 7 3. 5 12/14F 63, 025 56, 408 6, 618 2, 836 3, 782 3, 782 -338 188 -150 3, 444 895 2, 549 0 2, 549 2, 449 100 2, 288 2, 178 110 4, 768 2, 297 7. 6 6. 0 3. 9

Statement of Financial Condition (Summarized) Wbn) Current Assets Cash and Cash Equivalents AR & Other Receivables Inventories Other Current Assets Non-Current Assets Investments in Associates Property, Plant and Equipment Intangible Assets Total Assets Current Liabilities AP & Other Payables Short-Term Financial Liabilities Other Current Liabilities Non-Current Liabilities Long-Term Financial Liabilities Other Non-Current Liabilities Total Liabilities Controlling Interests Capital Stock Capital Surplus Retained Earnings Non-Controlling Interests Stockholders' Equity 12/11 23, 076 1, 610 9, 525 6, 478 2, 359 25, 924 973 15, 565 2, 324 49, 001 25, 491 14, 339 8, 903 2, 249 5, 334 3, 224 1, 954 30, 824 16, 379 380 1, 100 15,

399 1, 797 18, 177 12/12F 25, 628 1, 888 10, 237 6, 897 2, 737 24, 553 916
 15, 706 2, 290 50, 181 23, 183 11, 605 9, 060 2, 518 7, 460 5, 550 1, 755
 30, 643 17, 624 380 1, 100 16, 894 1, 915 19, 538 12/13F 28, 538 3, 517 10,
 927 7, 304 2, 922 24, 365 716 15, 703 2, 264 52, 903 24, 136 12, 388 9, 060
 2, 688 7, 602 5, 550 1, 896 31, 737 19, 141 380 1, 100 18, 682 2, 025 21,
 166 12/14F 30, 153 3, 469 11, 786 7, 878 3, 151 24, 277 566 15, 700 2, 240
 54, 430 24, 320 13, 361 8, 060 2, 899 6, 901 4, 550 2, 195 31, 221 21, 074
 380 1, 100 20, 885 2, 135 23, 208 Cash Flows (Summarized) Wbn) Cash
 Flows from Op Activities Net Profit Non-Cash Income and Expense
 Depreciation Amortization Others Chg in Working Capital Chg in AR & Other
 Receivables Chg in Inventories Chg in AP & Other Payables Income Tax Paid
 Cash Flows from Inv Activities Chg in PP&E Chg in Intangible Assets Chg in
 Financial Assets Others Cash Flows from Fin Activities Chg in Financial
 Liabilities Chg in Equity Dividends Paid Others Increase (Decrease) in Cash
 Beginning Balance Ending Balance 12/11 276 2, 743 3, 078 853 85 -860 -4,
 072 -178 -1, 442 -364 -1, 474 -888 -1, 583 -67 -34 796 347 1, 206 0 -411 -
 448 -269 1, 879 1, 610 12/12F -1, 972 1, 829 1, 907 899 85 107 -4, 572 -512
 -453 -3, 197 -1, 136 -544 -1, 074 -60 406 184 2, 806 3, 484 0 -245 -444 278
 1, 610 1, 888 12/13F 3, 082 2, 133 2, 187 903 86 50 -489 -691 -407 783 -749
 -770 -900 -60 0 190 -683 0 0 -245 -438 1, 628 1, 888 3, 517 12/14F 3, 345 2,
 549 2, 220 903 84 50 -528 -859 -574 973 -895 -738 -900 -60 0 222 -2, 654 -
 2, 000 0 -245 -409 -48 3, 517 3, 469 Forecasts/Valuations (Summarized)

P/E (x) P/CF (x) P/B (x) EV/EBITDA (x) EPS (W) CFPS (W) BPS (W) DPS (W)
 Payout ratio (%) Dividend Yield (%) Revenue Growth (%) EBITDA Growth (%)
 Operating Profit Growth (%) EPS Growth (%) Accounts Receivable Turnover

(x) Inventory Turnover (x) Accounts Payable Turnover (x) ROA (%) ROE (%) ROIC (%) Liability to Equity Ratio (%) Current Ratio (%) Net Debt to Equity Ratio (%) Interest Coverage Ratio (x) 12/11 12/12F 12/13F 12/14F 7. 6 10. 6 8. 5 7. 1 5. 6 6. 8 5. 7 5. 0 1. 3 1. 1 1. 0 0. 9 5. 3 8. 5 6. 2 5. 2 33, 671 22, 750 26, 750 32, 218 46, 009 35, 699 39, 772 45, 203 203, 367 220, 183 240, 492 266, 237 4, 000 0 4, 000 4, 000 9. 6 0. 0 12. 1 10. 0 1. 6 0. 0 1. 8 1. 8 43. 8 1. 9 6. 7. 9 -13. 5 -36. 6 24. 5 10. 4 -18. 0 -45. 2 34. 0 13. 5 -38. 4 -32. 4 17. 6 20. 4 5. 9 6. 0 6. 1 6. 1 9. 3 8. 2 8. 2 8. 3 4. 1 4. 8 5. 7 5. 8 5. 7 3. 7 4. 1 4. 8 16. 7 10. 2 11. 1 12. 2 17. 3 7. 8 10. 0 11. 2 169. 6 156. 8 150. 0 134. 5 90. 5 110. 6 118. 2 124. 0 40. 8 45. 3 34. 1 22. 7 15. 7 6. 0 7. 6 9. 2

Source: Company data, KDB Daewoo Securities Research estimates KDB Daewoo Securities Research 9 January 17, 2013 Shipbuilding Samsung Heavy Industries (010140 KS) Buy (Maintain) Target Price (12M, W) 46, 200 Share Price (01/16/13, W) 37, 850 Expected Return (%) 22. 1 EPS Growth (13F, %) 0. 6 Market EPS Growth (13F, %) 19. 1 P/E (13F, x) 9. Market P/E (13F, x) 9. 0 KOSPI 1, 977. 45 Market Cap (Wbn) 8, 739 Shares Outstanding (mn) 231 Avg Trading Volume (60D, '000) 938 Avg Trading Value (60D, Wbn) 34 Dividend Yield (13F, %) 0. 0 Free Float (%) 69. 5 52-Week Low (W) 31, 650 52-Week High (W) 42, 350 Beta (12M, Daily Rate of Return) 1. 57 Price Return Volatility (12M Daily, %, SD) 2. 3 Foreign Ownership (%) 32. 0 Major Shareholder(s) Samsung Electronics et al. (24. 42%) Treasury shares (6. 13%) Mirae Asset Global Investment (5. 05%) Price Performance (%) 1M 6M 12M Absolute -2. 7 4. 3 12. 3 Relative -1. 8 -4. 5 6. 0 Reliable again in 2013 ? ? ? 2013 orders and revenues forecast at US\$14. 2bn and W14. tr Stable business operations and earnings to remain intact in 2013 Raise TP by

5% to W46, 200; Maintain Buy Raise TP by 5% to W46, 200; Maintain Buy We maintain our Buy call on Samsung Heavy Industries (SHI) and raise our target price 5% to W46, 200. In deriving our target price, we applied a 5% premium to the company's lowest P/B level since 2005 (1.3x). We believe that the 5% premium is undemanding, as the company is expected to win solid orders and display stable earnings in 2013. We expect SHI to win massive orders of US\$14.2bn despite the slump in the global shipbuilding market, driven by the robust offshore plant market and the company's superior competitiveness.

SHI's shares are trading at a 2013F P/E of 9.4x and a P/B of 1.3x. We think that SHI has strong investment merits in light of its competitive edge, stable earnings, robust growth potential, and cash flow improvement. Investment summary 1) Domestic institutions are most optimistic on SHI among the three largest domestic shipbuilders. SHI has proven its superior competitiveness in the offshore plant business, including FLNG and drillships. As such, the company has solid earnings relative to its competitors. 2) SHI is expanding into the subsea business, and we believe that the company will be able to bolster its competitiveness in the segment rapidly. 3) The commercial vessel unit, which exhibited a tepid performance last year, is likely to recover in 2013 thanks to: 1) rising mega containership orders and 2) steady orders for LNG carriers and LNG FSRU. 4) SHI is expected to display the fastest cash flow improvement in its peer group this year, backed by: 1) a rise in orders for both offshore plants and commercial vessels and 2) an increase in heavy-tail payments. As such, the company will be able to repay its debt and strengthen its financial structure. 5) SHI's earnings should

gradually increase on rising revenue contributions from the offshore plant unit. Share price 150 140 130 120 110 100 90 80 1/12 5/12 9/12 1/13 KOSPI Earnings & Valuation Metrics FY 12/10 12/11 12/12F 12/13F 12/14F Revenue (Wbn) 13, 146 13, 392 14, 875 14, 980 15, 751 OP OP Margin NP (Wbn) (%) (Wbn) 1, 433 10. 1, 000 1, 160 8. 7 851 1, 226 8. 2 929 1, 198 8. 0 934 1, 355 8. 6 1, 015 EPS EBITDA FCF ROE (Won) (Wbn) (Wbn) (%) 4, 330 1, 504 598 28. 7 3, 685 1, 455 1, 556 19. 4 4, 021 1, 551 282 18. 4 4, 044 1, 514 931 15. 8 4, 396 1, 667 978 14. 9 P/E (x) 9. 5 7. 6 9. 6 9. 4 8. 6 P/B (x) 2. 1 1. 2 1. 5 1. 3 1. 1 EV/EBITDA (x) 8. 2 5. 4 6. 1 5. 5 4. 5 Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests Source: Company data, KDB Daewoo Securities Research estimates Daewoo Securities Research 10 January 17, 2013 Shipbuilding Samsung Heavy Industries (010140 KS/Buy/TP: W46, 200) Comprehensive Income Statement (Summarized) Wbn) Revenues Cost of Sales Gross Profit SG Expenses Operating Profit (Adj) Operating Profit Non-Operating Profit Net Financial Income Net Gain from Inv in Associates Pretax Profit Income Tax Profit from Continuing Operations Profit from Discontinued Operations Net Profit Controlling Interests Non-Controlling Interests Total Comprehensive Profit Controlling Interests Non-Controlling Interests EBITDA FCF (Free Cash Flow) EBITDA Margin (%) Operating Profit Margin (%) Net Profit Margin (%) 12/11 13, 392 11, 628 1, 763 681 1, 083 1, 160 -10 -25 -32 1, 150 299 851 0 851 851 0 616 616 0 1, 455 1, 556 10. 9 8. 7 6. 4 12/12F 14, 875 12, 867 2, 008 766 1, 242 1, 226 -30 -34 0 1, 196 267 929 0 929 929 0 920 920 0 1, 551 282 10. 4 8. 2 6. 2 12/13F 14, 980 13, 017 1, 962 764 1, 198 1, 198 4 -44 0 1, 202 268 934 0 934 934 0 925 925 0 1, 514 931 10. 1 8.

0 6. 2 12/14F 15, 751 13, 594 2, 158 803 1, 355 1, 355 -19 -51 0 1, 336 321
1, 015 0 1, 015 1, 015 0 1, 006 1, 006 0 1, 667 978 10. 6 8. 6 6. 5 Statement
of Financial Condition (Summarized) Wbn) Current Assets Cash and Cash
Equivalents AR & Other Receivables Inventories Other Current Assets Non-
Current Assets Investments in Associates Property, Plant and Equipment
Intangible Assets Total Assets Current Liabilities AP & Other Payables Short-
Term Financial Liabilities Other Current Liabilities Non-Current Liabilities
Long-Term Financial Liabilities Other Non-Current Liabilities Total Liabilities
Controlling Interests Capital Stock Capital Surplus Retained Earnings Non-
Controlling Interests Stockholders' Equity 12/11 9, 617 806 4, 132 540 1, 905
6, 797 0 5, 408 86 16, 414 10, 539 4, 425 3, 232 2, 883 1, 231 1, 004 88 11,
770 4, 644 1, 155 423 3, 610 0 4, 644 12/12F 9, 112 1, 115 3, 793 550 1,
711 6, 316 5 5, 434 38 15, 428 7, 758 3, 882 1, 570 2, 306 2, 213 1, 881 138
9, 971 5, 457 1, 155 423 4, 430 0 5, 457 12/13F 9, 229 1, 264 3, 820 554 1,
648 6, 372 5 5, 506 21 15, 601 7, 301 3, 910 1, 070 2, 322 1, 918 1, 481 188
9, 219 6, 382 1, 155 423 5, 364 0 6, 382 12/14F 9, 720 1, 445 4, 017 583 1,
733 6, 439 5 5, 573 13 16, 159 7, 223 4, 111 670 2, 442 1, 656 1, 081 271 8,
878 7, 280 1, 155 423 6, 272 0 7, 281 Cash Flows (Summarized) Wbn) Cash
Flows from Op Activities Net Profit Non-Cash Income and Expense
Depreciation Amortization Others Chg in Working Capital Chg in AR & Other
Receivables Chg in Inventories Chg in AP & Other Payables Income Tax Paid
Cash Flows from Inv Activities Chg in PP&E Chg in Intangible Assets Chg in
Financial Assets Others Cash Flows from Fin Activities Chg in Financial
Liabilities Chg in Equity Dividends Paid Others Increase (Decrease) in Cash
Beginning Balance Ending Balance 12/11 1, 341 1, 150 189 294 78 75 549 1,

284 150 164 -548 332 -242 -1 309 265 -1, 306 -1, 090 1 -108 -109 359 447
 806 12/12F 351 1, 131 558 297 11 -268 -1, 061 34 39 -541 -276 -274 -368 -1
 3 92 240 416 1 -108 -68 309 806 1, 115 12/13F 1, 376 934 580 299 17 -50
 130 -27 -4 27 -268 -310 -370 -1 0 61 -917 -900 0 -108 -17 149 1, 115 1, 264
 12/14F 1, 408 1, 015 651 302 10 -50 62 -197 -29 201 -321 -307 -370 -1 0 64
 -921 -800 0 -108 -13 181 1, 264 1, 445 Forecasts/Valuations (Summarized)

P/E (x) P/CF (x) P/B (x) EV/EBITDA (x) EPS (W) CFPS (W) BPS (W) DPS (W)
 Payout ratio (%) Dividend Yield (%) Revenue Growth (%) EBITDA Growth (%)
 Operating Profit Growth (%) EPS Growth (%) Accounts Receivable Turnover
 (x) Inventory Turnover (x) Accounts Payable Turnover (x) ROA (%) ROE (%)
 ROIC (%) Liability to Equity Ratio (%) Current Ratio (%) Net Debt to Equity
 Ratio (%) Interest Coverage Ratio (x) 12/11 7. 6 5. 3 1. 2 5. 4 3, 685 5, 296
 22, 582 500 12. 7 1. 8 1. 9 -3. 3 -19. 0 -14. 9 2. 8 23. 3 3. 2 4. 8 19. 4 15. 5
 253. 4 91. 3 25. 8 57. 5 12/12F 9. 6 7. 2 1. 5 6. 1 4, 021 5, 358 26, 307 0 0. 0
 0. 0 11. 1 6. 6 5. 7 9. 1 3. 8 27. 3 3. 7 5. 8 18. 4 18. 9 182. 7 117. 5 7. 2 57. 9
 12/13F 9. 7. 0 1. 3 5. 5 4, 044 5, 410 30, 381 0 11. 6 0. 0 0. 7 -2. 4 -2. 2 0. 6
 4. 0 27. 1 4. 0 6. 0 15. 8 16. 9 144. 5 126. 4 -10. 3 69. 5 12/14F 8. 6 6. 6 1. 1
 4. 5 4, 396 5, 747 34, 309 0 0. 0 0. 0 5. 2 10. 1 13. 0 8. 7 4. 1 27. 7 4. 1 6. 4
 14. 9 19. 1 121. 9 134. 6 -22. 5 106. 2 Source: Company data, KDB Daewoo
 Securities Research estimates KDB Daewoo Securities Research 11 January
 17, 2013 Shipbuilding Hyundai Mipo Dockyard (010620 KS) Buy (Maintain)
 Target Price (12M, W) 148, 000 Share Price (01/16/13, W) 125, 000 Expected
 Return (%) 18. 4 EPS Growth (13F, %) 45. 2 Market EPS Growth (13F, %) 19.
 1 P/E (13F, x) 13. 1 Market P/E (13F, x) 9. 0 KOSPI 1, 977. 5 Market Cap
 (Wbn) 2, 500 Shares Outstanding (mn) 20 Avg Trading Volume (60D, '000)

121 Avg Trading Value (60D, Wbn) 14 Dividend Yield (13F, %) 1. 6 Free Float (%) 51. 6 52-Week Low (W) 102, 500 52-Week High (W) 167, 000 Beta (12M, Daily Rate of Return) 1. 58 Price Return Volatility (12M Daily, %, SD) 2. 4 Foreign Ownership (%) 18. 1 Major Shareholder(s) Hyundai Samho Heavy Industries et al. (46. 4%) NPS (7. 38%) Price Performance (%) Absolute Relative Shining in the dark ? ? ? 2013 target: US\$3. 2bn in orders and W3. 6tr in revenues Stands to benefit most from industry restructuring Maintain Buy and TP of W148, 000 Maintain Buy and TP of W148, 000

We maintain our Buy recommendation on Hyundai Mipo Dockyard (HMD) and our target price of W148, 000. We expect HMD to maintain stable growth in orders and earnings, despite the global economic slowdown and eurozone fiscal crisis. Indeed, among small- to mid-sized shipbuilders, HMD is the company most favored by shipowners. Amid an expected further slowdown in the shipbuilding market, the company is anticipated to display distinguished share performance in 2013. Given HMDEs cash holdings of W450bn and the value of its stake in Hyundai Heavy Industries (W1. 4tr; 8. 0% of outstanding shares), we believe that the companiesE shares are currently undervalued (trading at a 2013F P/E of 13. 1x and a P/B of 0. 9x). Investment points) We believe HMD will continue to display outstanding performance among small- to mid-sized Korean shipbuilders in 2013. Even amid intensifying competition due to limited orders and low ship prices, the company is expected to enjoy stable orders, earnings, and cash flow this year. 2) HMDEs competitiveness comes from its productivity, financing capability, and the quality of its products. It also boasts strong cost competitiveness as the company purchases raw materials at relatively lower

prices from the Hyundai Heavy Industries Group. 3) In the small- to mid-sized merchant ship market, the product carrier (P/C) segment, in which HMD has the strongest competitive edge, is expected to be relatively robust in 2013.) If the shipbuilding market remains in a slump for a protracted period of time, HMD should be able to widen its gap with its peers. The company stands to benefit most from a second industry restructuring that is expected to end sometime in 2014.

1M	2.5	3.3	6M	6.4	-2.4	12M	11.6	5.3	Share price	160	150	140	130	120	110	100	90	80	1/12	5/12	9/12	1/13	KOSPI	Earnings & Valuation Metrics	FY	12/10	12/11	12/12F	12/13F	12/14F	Revenue	OP	OP	Margin	NP	EPS	EBITDA	FCF	ROE	P/E	(Wbn)	(Wbn)	(%)	(Wbn)	(Won)	(Wbn)	(Wbn)	(%)	(x)														
4	138	683	16.5	493	24	629	741	431	14.7	9.1	4	624	378	8.2	200	9,992	441	-633	5.5	11.2	4	404	126	2.9	131	6,556	192	-563	4.3	19.4	4	624	191	4.1	190	9,518	256	397	6.4	13.1	4	855	230	4.235	11,770	293	416	7.4	10.6	P/B	EV/EBITDA	(x)	(x)	1.2	4.4	0.8	4.2	1.0	13.8	0.9	8.6	0.8	6.0

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests Source: Company data, KDB Daewoo Securities Research estimates Daewoo Securities Research 12 January 17, 2013 Shipbuilding Hyundai Mipo Dockyard (010620 KS/Buy/TP: W148, 000) Comprehensive Income Statement (Summarized) (Wbn)

Revenues	Cost of Sales	Gross Profit	SG Expenses	Operating Profit (Adj)	Operating Profit	Non-Operating Profit	Net Financial Income	Net Gain from Inv	in Associates	Pretax Profit	Income Tax	Profit from Continuing	Operations	Profit from Discontinued	Operations	Net Profit	Controlling	Interests	Non-Controlling	Interests	Total Comprehensive	Profit	Controlling	Interests	Non-Controlling	Interests	EBITDA	FCF (Free Cash Flow)	EBITDA
----------	---------------	--------------	-------------	------------------------	------------------	----------------------	----------------------	-------------------	---------------	---------------	------------	------------------------	------------	--------------------------	------------	------------	-------------	-----------	-----------------	-----------	---------------------	--------	-------------	-----------	-----------------	-----------	--------	----------------------	--------

Margin (%) Operating Profit Margin (%) Net Profit Margin (%) 12/11 4, 624 3, 975 649 272 378 378 -63 -24 0 315 112 202 0 202 200 3 -821 -823 2 441 - 633 9. 5 8. 2 4. 3 12/12F 4, 404 4, 002 402 276 126 126 41 -8 -2 167 41 126 0 126 131 -5 -274 -265 -9 192 -563 4. 4 2. 9 3. 0 12/13F 4, 624 4, 143 481 290 191 191 52 -9 -2 243 58 185 0 185 190 -5 185 194 -9 256 397 5. 5 4. 1 4. 1 12/14F 4, 855 4, 321 534 304 230 230 73 -10 -2 303 73 230 0 230 235 - 5 230 239 -9 293 416 6. 0 4. 7 4. 9 Statement of Financial Condition (Summarized) Wbn) Current Assets Cash and Cash Equivalents AR & Other Receivables Inventories Other Current Assets Non-Current Assets Investments in Associates Property, Plant and Equipment Intangible Assets Total Assets Current Liabilities AP & Other Payables Short-Term Financial Liabilities Other Current Liabilities Non-Current Liabilities Long-Term Financial Liabilities Other Non-Current Liabilities Total Liabilities Controlling Interests Capital Stock Capital Surplus Retained Earnings Non-Controlling Interests Stockholders' Equity 12/11 4, 134 564 975 283 427 3, 691 34 889 340 7, 825 3, 914 1, 774 1, 779 361 502 56 420 4, 416 3, 217 100 91 2, 081 191 3, 409 12/12F 4, 994 418 1, 814 231 352 3, 632 35 928 341 8, 626 4, 499 1, 850 2, 253 396 999 191 781 5, 498 2, 912 100 90 2, 172 215 3, 127 12/13F 4, 919 468 1, 568 243 462 3, 675 33 964 344 8, 593 4, 274 1, 905 1, 953 416 1, 046 141 878 5, 320 3, 067 100 90 2, 323 206 3, 273 12/14F 4, 878 532 1, 427 255 486 3, 650 31 933 347 8, 527 4, 071 1, 991 1, 643 437 993 101 865 5, 063 3, 267 100 90 2, 519 197 3, 464 Cash Flows (Summarized) Wbn) Cash Flows from Op Activities Net Profit Non-Cash Income and Expense Depreciation Amortization Others Chg in Working Capital Chg in AR & Other Receivables Chg in Inventories Chg in AP & Other

Payables Income Tax Paid Cash Flows from Inv Activities Chg in PP&E Chg in Intangible Assets Chg in Financial Assets Others Cash Flows from Fin Activities Chg in Financial Liabilities Chg in Equity Dividends Paid Others Increase (Decrease) in Cash Beginning Balance Ending Balance 12/11 -697 202 311 62 1 -213 -1, 075 -190 -54 -593 -135 441 -100 -4 400 145 93 245 0 -93 -59 -168 732 564 12/12F -816 126 78 65 2 -12 -969 -220 52 66 -50 150 -112 -4 79 186 516 601 0 -39 -46 -146 564 418 12/13F 489 185 71 64 1 10 291 247 -12 56 -58 -47 -100 -4 0 57 -392 -350 0 -39 -2 50 418 468 12/14F 432 230 62 62 1 30 212 140 -12 86 -73 23 -30 -4 0 57 -391 -350 0 -39 -2 64 468 532 Forecasts/Valuations (Summarized)

P/E (x) P/CF (x) P/B (x) EV/EBITDA (x) EPS (W) CFPS (W) BPS (W) DPS (W) Payout ratio (%) Dividend Yield (%) Revenue Growth (%) EBITDA Growth (%) Operating Profit Growth (%) EPS Growth (%) Accounts Receivable Turnover (x) Inventory Turnover (x) Accounts Payable Turnover (x) ROA (%) ROE (%) ROIC (%) Liability to Equity Ratio (%) Current Ratio (%) Net Debt to Equity Ratio (%) Interest Coverage Ratio (x) 12/11 12/12F 12/13F 12/14F 11. 2 19. 4 13. 1 10. 6 8. 5 12. 9 9. 8 8. 4 0. 8 1. 0 0. 9 0. 8 4. 2 13. 8 8. 6 6. 0 9, 992 6, 556 9, 518 11, 770 13, 153 9, 869 12, 760 14, 910 146, 152 130, 821 138, 428 148, 290 2, 000 2, 000 2, 000 2, 000 19. 6 29. 9 20. 6 16. 6 1. 8 1. 6 1. 6 1. 6 11. 7 -4. 8 5. 0 5. 0 -40. 5 -56. 5 33. 4 14. 3 -44. 7 -66. 8 52. 2 20. 3 -59. 4 -34. 4 45. 2 23. 7 6. 1 4. 2 3. 9 5. 0 18. 1 17. 1 19. 5 19. 5 2. 5 3. 2 3. 8 3. 8 2. 3 1. 5 2. 2 2. 7 5. 5 4. 3 6. 4 7. 4 53. 8 8. 1 10. 7 15. 6 129. 6 175. 8 162. 5 146. 2 105. 6 111. 0 115. 1 119. 8 -18. 0 -4. 9 -16. 9 -27. 9 689. 5 45. 6 78. 1 109. 7

Source: Company data, KDB Daewoo Securities Research estimates KDB Daewoo Securities Research 13 January 17, 2013 Shipbuilding Hanjin Heavy I&C (097230 KS) Hold (Downgrade) Target Price (12M, W) Share Price (01/16/13, W) 10, 000 Expected Return (%) 0. 0 EPS Growth (13F, %) RR Market EPS Growth (13F, %) 19. 1 P/E (13F, x) Market P/E (13F, x) 9. 0 KOSPI 1, 977. 45 Market Cap (Wbn) 483 Shares Outstanding (mn) 48 Avg Trading Volume (60D, '000) 310 Avg Trading Value (60D, Wbn) 4 Dividend Yield (13F, %) 0. 0 Free Float (%) 62. 6 52-Week Low (W) 10, 000 52-Week High (W) 23, 850 Beta (12M, Daily Rate of Return) 1. 43 Price Return Volatility (12M Daily, %, SD) 2. 7 Foreign Ownership (%) 9. Major Shareholder(s) Hanjin Heavy I Holdings et al (37. 38%) KB Asset Management (5. 13%) Price Performance (%) 1M Absolute -23. 4 Relative -22. 5 Unlikely to weather market slump ? ? ? Earnings unlikely to recover due to shipbuilding market slump and protracted strike Cash flow to deteriorate due to excessive debt and weak orders Downgrade to Hold Downgrade to Hold We lower our rating on Hanjin Heavy I (HHIC) to Hold from Trading Buy. We believe that the company's earnings and cash flow will not improve for the time being, given its tepid order performance amid the sluggish commercial vessel market, and the suspension of its Youngdo shipyard due to a strike.

Although the company has recently embarked on the development of an industrial site near the Incheon port, the project is unlikely to boost operating profit markedly due to high capital requirements and increased interest expenses. As such, the company's shares are unlikely to recover in the near term, in our view Although the company's shares are trading at a 2013F P/B of just 0. 4x, we believe that their investment merits are low. Indeed, efforts

to dispose of property amid a lackluster real estate market should meet with difficulty, and continued net losses and excessive interest expenses should leave cash flow from operations uncertain. Risks) The commercial vessel unit at the Youngdo shipyard is unlikely to recover. The slump in the global commercial vessel market is leading to a fall in orders, while intensifying competition among shipbuilders are prompting shipowners to demand discounts on ship prices. . 2) There is a growing possibility that the Subic shipyard will take new orders, as it possesses strong price competitiveness. However, as it is difficult to build highend vessels at the Subic shipyard, the companyEs earnings are unlikely to recover in the near future. 3) There are many labor-management issues yet to be resolved, including one related to employees who are currently on leave due to a lack of work.) Although HHIC is meeting its short-term capital needs through real estate disposal, the company will likely find it difficult to sell large-scale real estate assets due to the real estate market slump. Indeed, the company needs more capital to engage in the development project near the Incheon port. Given that the project is not progressing rapidly, uncertainties over the companyEs cash flow will likely persist in the long term. 5) HHIC holds massive debt (W2. 8tr). Proceeds from the companyEs planned rights offering (estimated to at W180bn) should be only equivalent to its annual interest expenses. 6M -26. 7 -35. 5 12M -47. 9 -54. 3 Share price 120 110 100 90 80 70 60 50 40 1/12 5/12 9/12 1/13 KOSPI Earnings & Valuation Metrics

FY	12/10	12/11	12/12F	12/13F	12/14F	Revenue	OP	OP	Margin	NP
(Wbn)	(Wbn)	(Wbn)	(Wbn)	(Wbn)	(Wbn)	3, 168	120	3. 8	-72	2, 892
(%)	(%)	(%)	(%)	(%)	(%)	108	3. 7	-97	2, 547	63
						2. 5	-103			
						2, 795	76	2. 7	-10	3, 071
						83	2. 7	-32		
						EPS	EBITDA	FCF	ROE	(Won)
						(Wbn)	(Wbn)	(Wbn)	(Wbn)	(Wbn)

(Wbn) (%) -1, 496 312 487 -3. 6 -2, 006 200 -224 -5. 1 -2, 123 148 243 -5. 7 -
 158 195 182 -0. 6 -466 184 146 -1. 8 P/E (x) P/B (x) 1. 0 0. 5 0. 4 0. 4 0. 4
 EV/EBITDA (x) 14. 5 19. 9 24. 0 16. 9 18. 0 Notes: All figures are based on
 consolidated K-IFRS; NP refers to net profit attributable to controlling
 interests Source: Company data, KDB Daewoo Securities Research estimates
 Daewoo Securities Research 14 January 17, 2013 Shipbuilding Hanjin Heavy I
 (097230 KS/Hold) Comprehensive Income Statement (Summarized) Wbn)
 Revenues Cost of Sales Gross Profit SG Expenses Operating Profit (Adj)
 Operating Profit Non-Operating Profit Net Financial Income Net Gain from Inv
 in Associates Pretax Profit Income Tax Profit from Continuing Operations
 Profit from Discontinued Operations Net Profit Controlling Interests Non-
 Controlling Interests Total Comprehensive Profit Controlling Interests Non-
 Controlling Interests EBITDA FCF (Free Cash Flow) EBITDA Margin (%)
 Operating Profit Margin (%) Net Profit Margin (%) 12/11 2, 892 2, 665 227
 140 87 108 -190 171 -2 -82 15 -97 0 -97 -97 0 -90 -90 0 200 -224 6. 9 3. 7 -3.
 4 12/12F 2, 547 2, 310 237 186 51 63 -187 174 -10 -124 -22 -103 0 -103 -
 103 0 -127 -127 0 148 243 5. 8 2. 5 -4. 0 12/13F 2, 795 2, 516 280 204 76 76
 -89 159 -5 -13 -3 -11 0 -11 -10 0 -35 -34 0 195 182 7. 0 2. 7 -0. 4 12/14F 3,
 071 2, 764 307 224 83 83 -125 150 0 -42 -9 -33 0 -33 -32 0 -57 -56 0 184
 146 6. 0 2. 7 -1. 1 Statement of Financial Condition (Summarized) Wbn)
 Current Assets Cash and Cash Equivalents AR & Other Receivables
 Inventories Other Current Assets Non-Current Assets Investments in
 Associates Property, Plant and Equipment Intangible Assets Total Assets
 Current Liabilities AP & Other Payables Short-Term Financial Liabilities Other
 Current Liabilities Non-Current Liabilities Long-Term Financial Liabilities

Other Non-Current Liabilities Total Liabilities Controlling Interests Capital
 Stock Capital Surplus Retained Earnings Non-Controlling Interests
 Stockholders' Equity 12/11 2, 392 854 917 361 237 4, 645 66 3, 144 89 7,
 037 2, 483 811 1, 603 69 2, 687 2, 317 329 5, 170 1, 864 241 644 814 2 1,
 867 12/12F 2, 058 686 868 280 209 4, 535 81 2, 980 89 6, 592 2, 286 802 1,
 421 63 2, 566 2, 177 336 4, 852 1, 738 241 644 712 2 1, 740 12/13F 2, 077
 617 925 294 228 4, 487 76 2, 871 89 6, 564 2, 384 895 1, 421 69 2, 369 1,
 977 338 4, 753 1, 809 346 644 701 2 1, 810 12/14F 2, 025 422 1, 016 322
 250 4, 412 76 2, 780 89 6, 437 2, 479 983 1, 421 76 2, 204 1, 777 373 4,
 683 1, 752 346 644 669 2 1, 754 Cash Flows (Summarized) Wbn) Cash Flows
 from Op Activities Net Profit Non-Cash Income and Expense Depreciation
 Amortization Others Chg in Working Capital Chg in AR & Other Receivables
 Chg in Inventories Chg in AP & Other Payables Income Tax Paid Cash Flows
 from Inv Activities Chg in PP&E Chg in Intangible Assets Chg in Financial
 Assets Others Cash Flows from Fin Activities Chg in Financial Liabilities Chg
 in Equity Dividends Paid Others Increase (Decrease) in Cash Beginning
 Balance Ending Balance 12/11 -228 -97 246 113 0 44 -379 -192 -42 -150 2
 68 -15 0 -43 126 -106 91 1 0 -198 -262 1, 116 854 12/12F 316 -103 265 97 0
 16 131 23 77 33 22 9 -21 0 -14 44 -488 -297 0 0 -192 -168 854 686 12/13F
 194 -11 206 120 0 25 -4 -57 -13 92 3 11 -10 0 0 21 -275 -200 105 0 -180 -70
 686 617 12/14F 165 -33 216 101 0 25 -28 -91 -29 88 9 10 -10 0 0 20 -370 -
 200 0 0 -170 -194 617 422 Forecasts/Valuations (Summarized)

P/E (x) P/CF (x) P/B (x) EV/EBITDA (x) EPS (W) CFPS (W) BPS (W) DPS (W)
 Payout ratio (%) Dividend Yield (%) Revenue Growth (%) EBITDA Growth (%)
 Operating Profit Growth (%) EPS Growth (%) Accounts Receivable Turnover

(x) Inventory Turnover (x) Accounts Payable Turnover (x) ROA (%) ROE (%) ROIC (%) Liability to Equity Ratio (%) Current Ratio (%) Net Debt to Equity Ratio (%) Interest Coverage Ratio (x) 12/11 57. 4 0. 5 19. 9 -2, 006 323 36, 806 0 0. 0 0. 0 -8. 7 -35. 9 -9. 8 RR 3. 3 8. 9 3. 2 -1. 3 -5. 1 2. 4 276. 9 96. 3 163. 0 0. 5 12/12F -112. 3 0. 4 24. 0 -2, 123 -111 34, 182 0 0. 0 0. 0 -11. 9 -25. 9 -41. 8 RR 3. 3 8. 0 3. 9 -1. 5 -5. 7 1. 4 278. 9 90. 0 166. 5 0. 3 12/13F 5. 9 0. 4 16. 9 -158 1, 691 24, 843 0 0. 0 0. 0 9. 8 31. 8 20. 1 RR 3. 6 9. 8 4. 1 -0. 2 -0. 6 2. 1 262. 6 87. 1 152. 8 0. 4 12/14F 10. 1 0. 4 18. 0 -466 989 24, 030 0 0. 0 0. 0 9. 9 -5. 8 9. 9 RR 3. 6 10. 0 4. 0 -0. 5 -1. 8 2. 4 267. 0 81. 7 157. 4 0. 5 Source: Company data, KDB Daewoo Securities Research estimates KDB Daewoo Securities Research 15

January 17, 2013 Shipbuilding Important Disclosures & Disclaimers
 Disclosures As of the publication date, Daewoo Securities Co. , Ltd. has acted as a liquidity provider for equity-linked warrants backed by shares of Hyundai Heavy Industries and Samsung Heavy Industries as an underlying asset, and other than this, Daewoo Securities has no other special interests in the covered companies. As of the publication date, Daewoo Securities Co. , Ltd. has been acting as a financial advisor to Hyundai Mipo Dockyard for its treasury stock trust, and other than this, Daewoo Securities has no other special interests in the companies covered in this report.

As of the publication date, Daewoo Securities Co. , Ltd. issued equity-linked warrants with Hyundai Heavy Industries and Samsung Heavy Industries as an underlying asset, and other than this, Daewoo Securities has no other special interests in the covered companies. Stock Ratings Buy Trading Buy Hold Sell Relative performance of 20% or greater Relative performance of 10% or

greater, but with volatility Relative performance of -10% and 10% Relative performance of -10% Industry Ratings Overweight Neutral Underweight Fundamentals are favorable or improving Fundamentals are steady without any material changes Fundamentals are unfavorable or worsening Ratings and Target Price History (Share price (----), Target price (----), Not covered (!), Buy (^), Trading Buy (!), Hold (?), Sell (?)) * Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months. * Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development. * The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analystEs estimate of future earnings. The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions. W) 800, 000 600, 000 400, 000 200, 000 0 1/11 7/11 1/12 7/12 1/13 Hyundai Heavy Industries (W) 60, 000 50, 000 40, 000 30, 000 20, 000 10, 000 0 1/11 7/11 1/12 7/12 1/13 Samsung Heavy Industries (W) 350, 000 300, 000 250, 000 200, 000 150, 000 100, 000 50, 000 0 1/11 7/11 1/12 7/12 1/13 Hyundai Mipo Dockyard (W) 50, 000 40, 000 30, 000 20, 000 10, 000 0 1/11 7/11 1/12 7/12 1/13 Hanjin Heavy I&C Analyst Certification The research analysts who prepared this report (the „ Analysts%oo) are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws and regulations thereof.

Opinions expressed in this publication about the subject securities and companies accurately reflect the personal views of the Analysts primarily responsible for this report. Daewoo Securities Co. , Ltd. policy prohibits its Analysts and members of their households from owning securities of any company in the AnalystEs area of coverage, and the Analysts do not serve as an officer, director or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report.

No part of the compensation of the Analysts was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report but, like all employees of Daewoo Securities, the Analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Daewoo Securities Co. , Ltd. except as otherwise stated herein. Disclaimers This report is published by Daewoo Securities Co. , Ltd. („ Daewoo%oo), a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and pinions contained herein have been compiled from sources believed to be reliable and in good faith, but such information has not been independently verified and Daewoo makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy,

completeness or correctness of the information and opinions contained herein or of any translation into English from the Korean language. If this report is an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report. Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising from the use hereof. This report is for general information purposes only and it is not and should not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments.

The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws and regulations or subject Daewoo and its affiliates to registration or licensing requirements in any jurisdiction should receive or make any use hereof. Information and opinions contained herein are subject to change without notice and no part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Daewoo. Daewoo, its affiliates and their directors, officers, employees and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents.

Daewoo and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations. The price and value of the investments referred to in this report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Daewoo Securities Research 16 January 17, 2013 Shipbuilding Distribution United Kingdom: This report is being distributed by Daewoo Securities (Europe) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the „ Order %), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as „ Relevant Persons%). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents. United States: This report is distributed in the U. S. by Daewoo Securities (America) Inc. , a member of FINRA/SIPC, and is only intended for major institutional investors as defined in Rule 15a-6(b)(4) under the U. S. Securities Exchange Act of 1934. All U. S. persons that receive this document by their acceptance thereof represent and warrant that they are a major institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Daewoo or its affiliates. Any U. S. recipient of this document wishing to effect a transaction

in any securities discussed herein should contact and place orders with Daewoo Securities (America) Inc. , which accepts responsibility for the contents of this report in the U. S. The securities described in this report may not have been registered under the U. S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U. S. or to U. S. persons absent registration or an applicable exemption from the registration requirements. Hong Kong: This document has been approved for distribution in Hong Kong by Daewoo Securities (Hong Kong) Ltd. , which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Daewoo or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Daewoo and its affiliates to any registration or licensing requirement within such jurisdiction. KDB Daewoo Securities International Network Daewoo Securities Co. Ltd. (Seoul) Head Office 34-3 Yeouido-dong, Yeongdeungpo-gu Seoul 150-716 Korea Tel: 82-2-768-3026 Daewoo Securities (Europe) Ltd. Tower 42, Level 41 25 Old Broad Street London EC2N 1HQ United Kingdom Tel: 44-20-7982-8016 Shanghai Representative Office Unit 13, 28th Floor, Hang

Seng Bank Tower 1000 Lujiazui Ring Road Pudong New Area, Shanghai
200120 China Tel: 86-21-5013-6392 Daewoo Securities (Hong Kong) Ltd.

Two International Finance Centre Suites 2005-2012 8 Finance Street, Central
Hong Kong Tel: 85-2-2514-1304 Tokyo Representative Office 7th Floor,
Yusen Building 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-
3- 3211-5511 Ho Chi Minh Representative Office Centec Tower 72-74 Nguyen
Thi Minh Khai Street Ward 6, District 3, Ho Chi Minh City Vietnam Tel: 84-8-
3910-6000 Daewoo Securities (America) Inc. 600 Lexington Avenue Suite
301 New York, NY 10022 United States Tel: 1-212-407-1022 Beijing
Representative Office Suite 2602, Twin Towers (East) B-12 Jianguomenwai
Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699 KDB
Daewoo Securities Research 17