

GS Holdings

(078930 KS)

Oil refining

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Set to display record-high performance

■ Raise TP to W110,000; Maintain Buy rating

We maintain our Buy call on GS Holdings and raise our target price by 33% to W110,000 (2011F P/E of 8x and P/B of 1.7x; ROE of 23%). We revised up our 2011 and 2012 operating profit forecasts for GS Caltex by 13% and 27%, respectively, to reflect faster-than-expected improvements in refining margins and PX prices. Despite a recent rally, shares of GS Holdings still appear attractive, given 1) the company's quarterly earnings improvement on widening refining margins, and 2) the rise in the share price of its peers in Asia and North America.

■ GS Caltex posts 4Q10 operating profit of W476bn (up 115% QoQ)

GS Caltex posted 4Q10 operating profit of W476bn, which is in line with our estimates (excluding one-off expenses). The operating profits of the company's oil refining and petrochemical divisions surged 158% and 55% QoQ, respectively, on the back of widening refining margins and PX spreads.

In 1Q11, we expect GS Caltex to report an operating profit of W690.3bn, up 45% QoQ. Diesel and gasoline margins have improved considerably since 1Q, and the operation of the company's new upgrading facilities should contribute to an increase in the proportion of middle distillate sales (in total sales). PX prices, a key indicator of GS Caltex's petrochemical business performance, have been rising since end-2010 and should therefore boost the company's earnings further.

■ 2011 Outlook: GS Caltex to record operating profit of W2.8tr (up 137%)

We expect refining margins (mainly kerosene and diesel) to continue to widen through 2012. Margins may improve more than expected, depending on the pace of economic recovery in the U.S. and the growth of petrochemical demand in China. In December 2010, China's petrochemical demand rose 12%, which was higher than expected, and China reported a large net increase in diesel imports.

Earnings at GS Caltex should pick up strong momentum when the company ramps up the operation of its upgrading facilities. In 2011, the company's oil refining and petrochemical divisions are anticipated to report record operating profits of W1.9tr (up 178%) and W0.8tr (up 93%), respectively. Furthermore, GS Caltex should see its corporate value improve, as an annual EBITDA of over W3tr (projected to be generated until 2012) should help reduce the company's borrowings.

FY	Sales (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (W)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/08	139	-41	-29.4	16	165	-33	70	0.5	162.8	0.7	-91.5
12/09	534	499	93.4	496	5,240	506	31	12.8	6.5	0.8	7.5
12/10P	929	883	95.0	801	8,458	890	188	17.9	7.7	1.2	7.4
12/11F	1,364	1,318	96.6	1,261	13,314	1,326	204	23.2	5.9	1.2	5.8
12/12F	1,446	1,398	96.7	1,343	14,180	1,406	334	20.3	5.5	1.0	5.4

Source: Company data, Daewoo Securities Research estimates

Buy (Maintain)

Bloomberg: 078930 KS

Target Price (12M, W): 110,000

Share Price (02/08/11, W): 77,900

Expected Return (%): 41.2

Sector: Oil, Gas refining

Sector Rating: Overweight

EPS Growth (11F, %): 57.4

Market EPS Growth (11F, %): 24.0

P/E (X): 5.9

Market P/E (02/08/11F, x): 10.1

Market Cap (Wbn): 7,238

Shares Outstanding (mn): 95

Avg Trading Volume (60D, '000): 821

Avg Trading Value (60D, Wbn): 57

Margin Balance ('000 sh): 0

Dividend Yield (11F, %): 1.9

Free Float (%): 54.7

52-Week Low/High: 32,800/83,300

Beta (12M, Daily Rate of Return): 1.1

Price Return Volatility (12M Daily, %, SD): 2.4

Foreign Ownership (%): 19.8

Major Shareholder(s):

Huh Chang Su et al. (45.32%)

National Pension Services (5.03%)

Price Performance

(%)	1M	6M	12M
Absolute	19.5	65.9	117.9
Relative	20.3	49.9	84.6

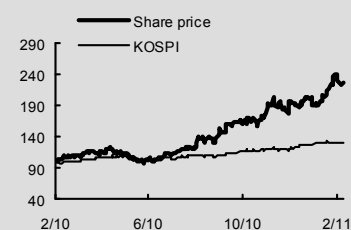


Table 1. Target price calculation for GSH

(Wbn, %, W, x)

	Fair value	Remarks
Investments (A)	10,170.3	Fair value for investments
Real estate (B)	559.8	Book value
Royalty revenue	954.9	Assumed long-term growth rate of 2% and WACC of 10%
Net debt (C)	419.2	As of end-2011F
Market cap of preferred shares(D)	45.2	
Target market cap (E=A+B-C-D)	10,265.7	
Outstanding shares (F)	92,915.4	
Target price (G=E/F)	110,483.9	
Implied P/E	8.3	
Implied P/B	1.7	
Current price (H)	77,900.0	
Upside	41.8	

Source: Daewoo Securities Research

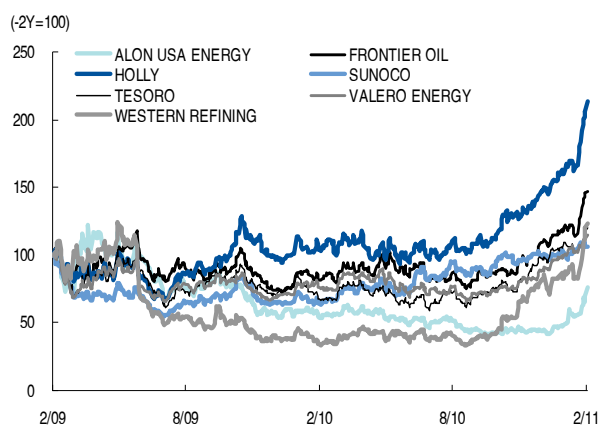
Table 2. Calculation of the fair value of investments

(Wbn, %)

Company	Sector	Stake (%)	Market cap	Value of GS Holdings' stakes			Remarks
				Book value	Market value	Fair value	
GS Caltex	Oil refining , Chemical	50.0		3,695.1	8,973.6		Applied 2011F EV/EBITDA of 8x and subtracted net debt, P/B of 2.5x
GS Retail	Convenient stores, supermarkets	65.8		910.4		566.9	Applied 2011F P/E of 15x and discounted 30%
GS Home Shopping	TV home Shopping, internet shopping	30.0	818.3	107.1	161.8	176.4	Discounted 30% from market cap stake
GS EPS	Power generation, electricity sale	70.0		315.8		315.8	Book value
GS Global	Trading, resource development	55.9	378.6	100.7	121.6	137.6	Discounted 30% from market cap stake
Total				4,657.3		10,170.3	

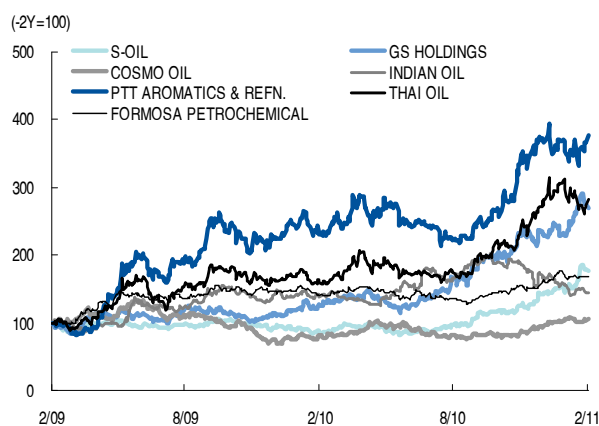
Source: Daewoo Securities Research

Figure 1. Relative share prices for independent refineries in U.S.



Source: Thomson Reuters

Figure 2. Relative share prices for independent refineries in Asia



Source: Thomson Reuters

Table 3. Earnings forecasts for GSH by quarter

(Wbn)

		Quarterly								Yearly		
		1Q10	2Q10	3Q10	4Q10P	1Q11	2Q11	3Q11	4Q11	09	10F	11F
Operating revenue	Total	152.4	394.6	162.2	219.4	330.8	369.4	340.1	324.2	533.6	926.7	1,364.5
	Equity-method gains	134.9	377.0	145.5	199.1	300.9	339.5	310.6	293.9	471.2	856.4	1,244.8
	Rental revenue	10.0	10.0	9.6	9.9	10.8	10.8	10.4	11.3	36.2	39.5	43.2
	Brand royalty	7.6	7.7	7.1	8.5	19.1	19.1	19.2	19.0	26.1	30.8	76.4
Operating profit		142.0	386.5	151.5	206.2	319.2	358.8	330.1	315.1	498.5	882.5	1,318.5
Pretax profit		145.5	388.5	153.5	203.7	323.9	363.3	331.5	308.5	506.5	891.3	1,327.2
Net profit		140.5	338.8	136.9	184.8	307.7	345.2	314.9	293.1	496.2	801.0	1,260.9

Source: Daewoo Securities Research

Table 4. Earnings forecasts for GS Caltex by quarter

(Wbn, %)

		Quarterly								Yearly		
		1Q10	2Q10	3Q10	4Q10P	1Q11	2Q11	3Q11	4Q11	09	10P	11F
Sales	Total	8,258.4	8,622.0	8,689.9	9,745.9	10,633.5	10,217.5	9,949.4	9,744.9	26,089.0	35,316.2	40,545.2
	Oil refining	6,756.2	7,309.5	7,499.8	8,185.8	9,041.5	8,708.5	8,456.1	8,214.9	22,293.1	29,751.3	34,420.9
	Petrochemical	1,040.4	1,065.3	986.4	1,171.9	1,223.2	1,177.0	1,161.1	1,131.6	3,795.9	4,264.0	4,693.0
	Gas/Electricity	461.8	244.5	202.3	387.2	367.8	331.1	331.1	397.3	-	1,295.8	1,427.2
Operating profit	Total	231.6	271.1	221.5	476.0	690.3	785.2	711.6	662.0	694.1	1,200.2	2,849.1
	Oil refining	54.2	203.3	121.9	313.9	439.3	547.7	489.2	441.5	-41.0	693.3	1,917.7
	Petrochemical	125.5	73.9	88.7	137.2	220.2	211.9	197.4	192.4	735.0	425.3	821.8
	Gas/Electricity	61.2	28.8	19.3	70.4	50.8	45.7	45.0	48.1	-	179.7	189.5
Pretax profit		172.1	246.1	100.0	39.0	256.7	151.1	232.5	533.0	557.3	1,173.3	2,821.1
Net profit		178.1	229.8	115.5	129.3	203.1	100.0	207.0	352.2	652.8	862.3	2,200.5
OP margin	Total	2.8	3.1	2.5	4.9	6.5	7.7	7.2	6.8	2.7	3.4	7.0
	Oil refining	0.8	2.8	1.6	3.8	4.9	6.3	5.8	5.4	-0.2	2.3	5.6
	Petrochemical	12.1	6.9	9.0	11.7	18.0	18.0	17.0	17.0	19.4	10.0	17.5
	Utilities	13.3	11.8	9.5	18.2	13.8	13.8	13.6	12.1	-	13.9	13.3
Oil price (Dubai)		76.0	78.2	74.0	84.4	93.0	91.0	93.0	95.0	61.9	78.2	93.0
Exchange rate (W/US\$)		1,143.9	1,166.0	1,182.6	1,118.3	1,080.0	1,050.0	1,020.0	980.0	1,277.2	1,152.7	1,032.5

Source: Daewoo Securities Research

Table 1. Earnings forecast revisions for GS Caltex

(Wbn, %, %p)

		Previous			Revision			Diff.			Change after revision		
		10P	11F	12F	10P	11F	12F	10P	11F	12F	10P	11F	12F
Sales	Total	34,859.6	37,493.2	40,455.3	35,316.2	40,545.2	40,683.2	1.3	8.1	0.6	35.4	14.8	0.3
	Oil refining	29,313.3	31,850.5	34,734.2	29,751.3	34,420.9	34,644.3	1.5	8.1	-0.3	33.5	15.7	0.6
	Petrochemical	4,220.8	4,275.3	4,325.3	4,264.0	4,693.0	4,578.9	1.0	9.8	5.9	12.3	10.1	-2.4
	Gas/Electricity	1,308.3	1,331.4	1,358.0	1,295.8	1,427.2	1,455.8	-1.0	7.2	7.2	-	10.1	2.0
Operating profit	Total	1,339.8	2,533.0	2,477.9	1,200.2	2,849.1	3,146.7	-10.4	12.5	27.0	72.9	137.4	10.4
	Oil refining	845.2	1,857.6	1,821.9	693.3	1,917.7	2,138.7	-18.0	3.2	17.4	TB	176.6	11.5
	Petrochemical	397.5	588.5	562.3	425.3	821.8	824.2	7.0	39.7	46.6	-42.1	93.2	0.3
	Gas/Electricity	171.4	176.8	180.6	179.7	189.5	193.6	4.8	7.2	7.2	-	5.5	2.2
Pretax profit		1,312.9	2,505.0	2,337.9	1,173.3	2,821.1	3,006.7	-10.6	12.6	28.6	110.5	140.4	6.6
Net profit		1,027.0	1,953.9	1,823.5	862.3	2,200.5	2,345.2	-16.0	12.6	28.6	32.1	155.2	6.6
OP margin	Total	3.8	6.8	6.1	3.4	7.0	7.7	-0.4	0.3	1.6	0.7	3.6	0.7
	Oil refining	2.9	5.8	5.2	2.3	5.6	6.2	-0.6	-0.3	0.9	2.5	3.2	0.6
	Petrochemical	9.4	13.8	13.0	10.0	17.5	18.0	0.6	3.7	5.0	-9.4	7.5	0.5
	Utilities	13.1	13.3	13.3	13.9	13.3	13.3	0.8	0.0	0.0	13.9	-0.6	0.0

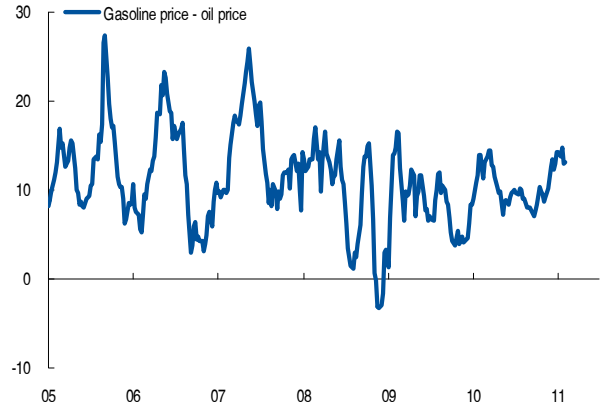
Source: Daewoo Securities Research

Figure 3. Spreads for diesel and oil prices



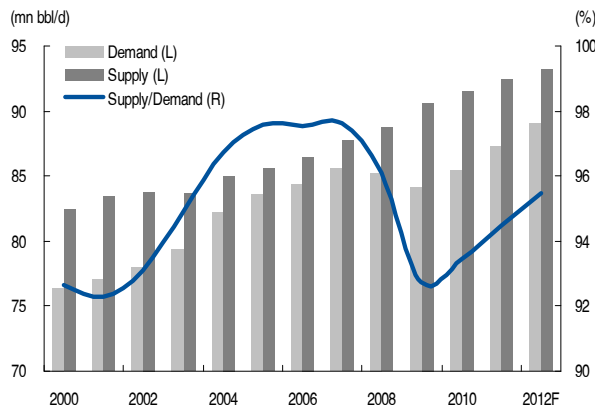
Source: Petronet

Figure 4. Spreads for gasoline and oil prices



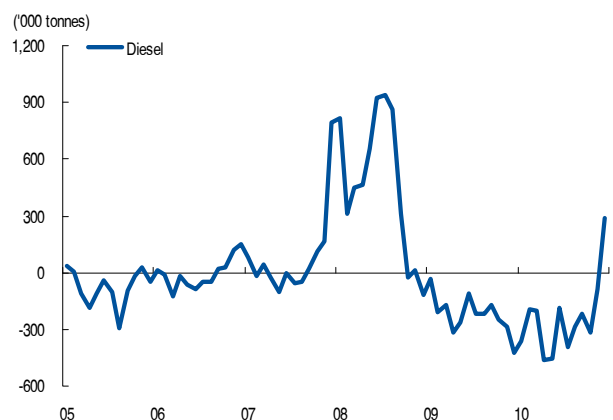
Source: Petronet

Figure 5. Supply and demand for global fuel products



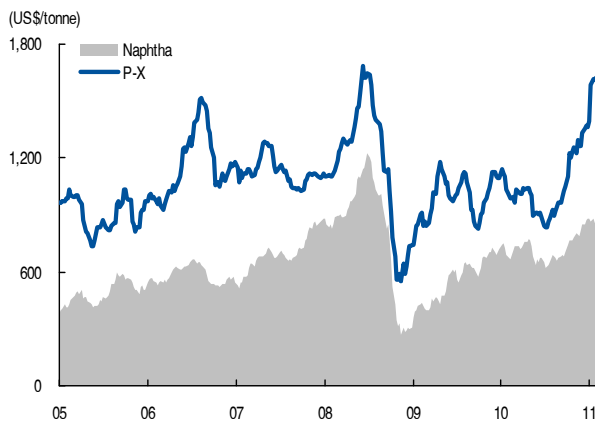
Source: Daewoo Securities Research

Figure 6. China's net imports for diesel



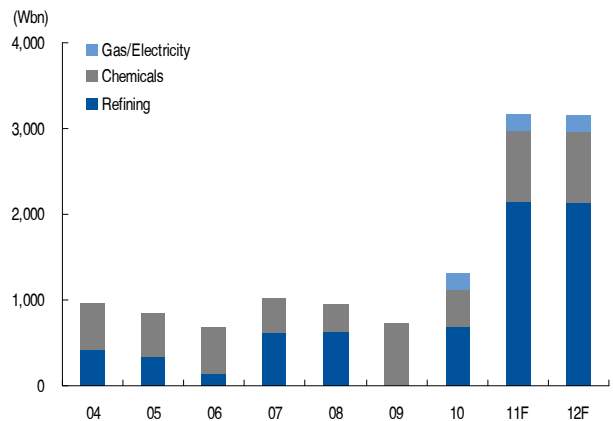
Source: CEIC

Figure 7. Spreads for P-X and naphtha prices



Source: Cischem

Figure 8. Operating profit at GS Caltex by division



Source: Daewoo Securities Research

GS Holdings (078930 KS/Buy/TP: W110,000)

Income Statement (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Sales	534	929	1,364	1,446
Cost of Goods Sold	3	-2	-2	0
Gross Profit	531	930	1,366	1,446
SG&A	32	48	48	48
Operating Profit	499	883	1,318	1,398
Non-Operating Income	8	9	9	15
Interest Income/Expense	-32	-32	-32	-28
F/X-Related Gain/Loss	0	1	1	1
Equity Method Gain/Loss	0	0	0	0
Asset Disposal Gain/Loss	0	0	0	0
Other Non-Operating Profit/Loss	40	40	40	42
Pretax Profit	506	891	1,327	1,413
Tax	10	90	66	70
Profit from Continuing Operation	496	801	1,261	1,343
Profit from Discontinued Operation	0	0	0	0
Tax Effect	0	0	0	0
Net Profit	496	801	1,261	1,343
Residual Income	496	801	1,261	1,343
EBITDA	506	890	1,326	1,406
Free Cash Flow	31	188	204	334
Gross Profit Margin (%)	99.5	100.2	100.1	100.0
EBITDA Margin (%)	94.9	95.9	97.2	97.2
Operating Margin (%)	93.4	95.0	96.6	96.7
Net Margin (%)	93.0	86.3	92.4	92.9

Cash Flow (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Cash Flow from Operating Activities	31	188	204	334
Net Profit	496	801	1,261	1,343
Non-Cash Income and Expense	-500	-878	-1,241	-1,326
Tangible Assets Depreciation	7	7	7	7
Intangible Assets Depreciation	1	1	1	1
Others	-507	-886	-1,248	-1,334
Chg in Working Capital	35	265	184	317
Chg in Accounts Receivable	0	0	0	0
Chg in Inventories	0	0	0	0
Chg in Accounts Payable	0	0	0	0
Others	35	265	184	317
Cash Flow from Investment Activities	-99	-34	-8	-89
Chg in Tangible Assets	0	-2	-7	0
Chg in Intangible Assets	0	-10	-1	-41
Chg in Investment Assets	-99	-22	0	0
Others	0	0	0	-48
Cash Flow from Financing Activities	80	-158	-95	-146
Chg in Borrowings	127	-63	0	-4
Chg in Equity	-47	-95	-95	-142
Dividends	-47	-95	-95	-142
Others	0	0	0	0
Chg in Cash	12	-4	102	99
Beginning Cash Balance	38	50	45	148
Ending Cash Balance	50	45	147	247

Source: Company data, Daewoo Securities Research estimates

Balance Sheet (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Current Assets	59	92	195	336
Cash and Cash Equivalents	50	45	148	248
Accounts Receivable	0	0	0	0
Inventories	0	0	0	0
Other Current Assets	9	47	47	88
Non-Current Assets	5,113	5,829	6,893	7,892
Investment Assets	4,679	5,361	6,424	7,391
Property, Plant and Equipment	560	555	555	548
Intangible Assets	-126	-86	-86	-46
Total Assets	5,172	5,921	7,087	8,228
Current Liabilities	152	263	263	213
Accounts Payable	0	0	0	0
Short-Term Debt	142	73	73	79
Current Long-Term Debt	0	102	102	102
Other Current Liabilities	11	88	88	32
Non-Current Liabilities	938	803	803	793
Bonds	508	397	397	376
Long-Term Debt	17	17	17	36
Other Non-Current Liabilities	412	389	389	381
Total Liabilities	1,090	1,066	1,066	1,006
Paid-In Capital	474	474	474	474
Capital Surplus	1,308	1,307	1,307	1,307
Retained Earnings	1,658	2,850	4,016	5,216
Stockholders' Equity	4,082	4,855	6,021	7,222

Forecasts/Valuations (Summarized)				
	12/09	12/10F	12/11F	12/12F
P/E (x)	6.5	7.7	5.9	5.5
P/CF (x)	6.4	7.6	5.9	5.5
P/B (x)	0.8	1.2	1.2	1.0
EV/EBITDA (x)	7.5	7.4	5.8	5.4
EPS (W)	5,240	8,458	13,314	14,180
CFPS (W)	5,313	8,531	13,387	14,253
BPS (W)	44,436	52,183	64,496	76,753
DPS (W)	1,000	1,000	1,500	2,000
Payout Ratio (%)	19.1	11.8	11.3	14.1
Dividend Yield (%)	3.0	1.3	1.9	2.6
Sales Growth (%)	283.2	74.0	47.0	6.0
EBITDA Growth (%)	흑전	75.8	49.0	6.0
Operating Profit Growth (%)	흑전	77.0	49.4	6.0
EPS Growth (%)	3,071.3	61.4	57.4	6.5
Accounts Receivable Turnover (x)	-	-	-	-
Inventory Turnover (x)	-	-	-	-
Accounts Payable Turnover (x)	-	-	-	-
ROA (%)	10.2	14.4	19.4	17.5
ROE (%)	12.8	17.9	23.2	20.3
ROIC (%)	1,106.2	3,258.1	5,286.5	1,720.9
Liability to Equity Ratio (%)	26.7	22.0	17.7	13.9
Current Ratio (%)	38.6	34.9	74.0	157.8
Net Debt to Equity Ratio (%)	15.1	10.8	7.0	3.8
Interest Coverage Ratio (x)	14.7	25.9	38.7	46.4

Important Notices

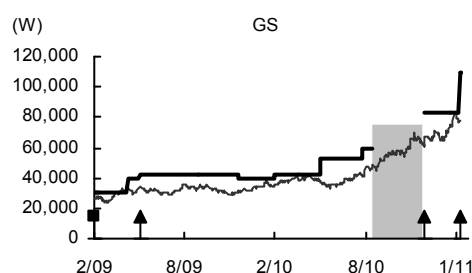
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Stock Ratings

Buy	Relative performance of +20% or greater
Trading Buy	Relative performance of +10% or greater, but with volatility
Hold	Relative performance of -10% and +10%
Sell	Relative performance of -10%

Industry Ratings

Overweight	Fundamentals are favorable or improving
Neutral	Fundamentals are steady without any material changes
Underweight	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.

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