

## Holding Companies

News Comment

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Daewoo Securities Co., Ltd.

[Holding Companies/IT Services]

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# Hanwha Corp.

(000880 KS/Buy)

## Acquisitions to bolster competitiveness of flagship businesses

### 1. Hanwha acquires stakes in Samsung Techwin and Samsung General Chemicals

#### (1) Acquisition details

On November 26<sup>th</sup>, Hanwha Group announced its plan to acquire a 32.4% stake in Samsung Techwin and a 57.6% stake in Samsung General Chemicals. Hanwha Corp. will purchase all Samsung Techwin shares up for sale, but Samsung General Chemicals will be acquired jointly by Hanwha Chemical (009830 KS; 27.6%) and Hanwha Energy (unlisted, 30.0%).

The acquisition will include Samsung Techwin's stakes in Korea Aerospace Industries (10.0%), Samsung Heavy Industries (0.1%), Samsung Thales (50.0%), and Samsung General Chemicals (22.7%). Upon completion of the deal, Hanwha Group will gain management control of Samsung Techwin and Samsung General Chemicals, and joint control of Samsung Thales and Samsung Total Petrochemicals.

#### (2) Payment and funding

Hanwha Group is set to pay a total of W1.9tr for its acquisition of Samsung Group affiliates. For the stake in Samsung Techwin (W840bn=17,189,609 shares x W48,866.7), Hanwha plans to pay 50% around June 2015, and the rest a year later. Hanwha Chemical and Hanwha Energy will respectively pay W508.1bn and W551.9bn (40% upon the completion of the deal, 30% a year later, and 30% two years later).

Hanwha Corp. is expected to fund the deal with free cash from operating activities and dividends from subsidiaries. The company is also expected to liquidate some assets, issue bonds, or borrow from financial institutions (if necessary). However, the installment payment deal should ease the company's financial burden. Furthermore, in light of a potential increase in operating cash flow thanks to the merger with Hanwha TechM in October and the Chunmoo multiple rocket launch system project, Hanwha Group's financial stability should not see deterioration.

### 2. Maintain Buy and TP of W40,000

The acquisition of stakes in Samsung Techwin and Samsung Thales is expected to push up Hanwha Corp's defense revenue to W2.6tr (vs. 1tr in 2013), making it the top player in the domestic defense industry. In particular, Hanwha Corp. and Samsung Techwin have no areas of overlap. Accordingly, Hanwha Corp.'s business portfolio will expand sharply with the inclusion of Samsung Techwin's self-propelled artillery, aircraft engine, and defense electronics businesses (in addition to the existing ammunition and precision-guided weapon businesses).

We maintain our Buy rating and target price of W40,000. Hanwha E&C is anticipated to receive additional Iraqi infrastructure project orders at year-end. In 2015, we expect the Chunmoo multiple rocket launch system project to gather steam, raking in annual revenue of W200bn. Furthermore, the merger with Hanwha TechM should contribute to operating profit starting next year.

FY (Dec.)	12/10	12/11	12/12	12/13	12/14F	12/15F
Revenue (Wbn)	34,723	12,186	35,652	38,725	38,728	42,489
OP (Wbn)	1,569	307	1,226	864	627	1,260
OP margin (%)	4.5	2.5	3.4	2.2	1.6	3.0
NP (Wbn)	266	135	287	130	-187	270
EPS (W)	3,531	1,783	3,799	1,723	-2,485	3,576
ROE (%)	10.4	3.6	6.4	3.0	-4.5	6.4
P/E (x)	13.2	18.6	9.0	22.7	-	8.7
P/B (x)	1.2	0.5	0.6	0.7	0.6	0.5

Note: All figures are based on consolidated K-IFRS; NP refers to profit attributable to controlling interests  
Source: Company data, KDB Daewoo Securities Research estimates

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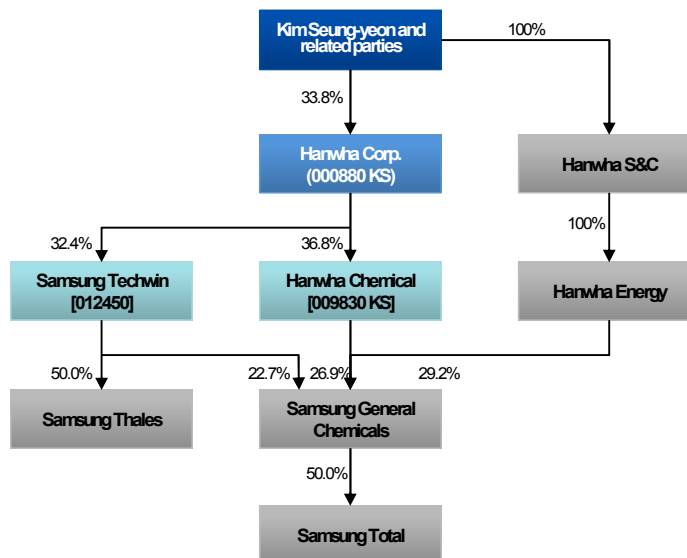
Table 1. Acquisition overview

(Wbn, %)

	Stake	Valuation	Acquisition value	Payment	Acquirer
<b>1) Samsung Techwin</b>	<b>32.4</b>	<b>584</b>	<b>840</b>	Cash, two installments (completion of deal: 50%; after one year: 50%)	<b>Hanwha Corp.</b>
+Samsung Thales	50.0	208			
+Samsung General Chemicals	22.7	225			
+KAI	10.0	397			
<b>2) Samsung General Chemicals</b>	<b>57.6</b> (excluding treasury stock)	<b>1,452</b>	<b>1,060</b>	Cash, three installments (completion of deal: 40%; after one year: 30%; after two years: 30%)	<b>Hanwha Chemical (27.6%, W508bn)</b> <b>Hanwha Energy (30.0%, W552bn)</b>
+Samsung Total	50.0	1,236			
<b>Total</b>		<b>2,036</b>	<b>1,900</b>		

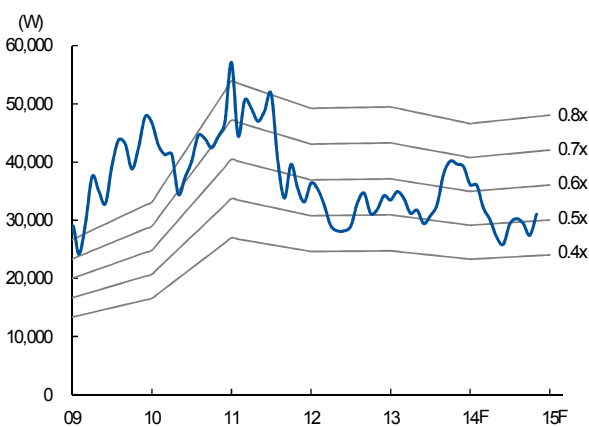
Notes: Samsung Techwin and KAI data are based on November 25, 2014 closing prices, other data are based on their 3Q14 book value  
Source: KDB Daewoo Securities Research

Figure 1. Hanwha Group's structure following acquisitions of Samsung Techwin and Samsung General Chemicals



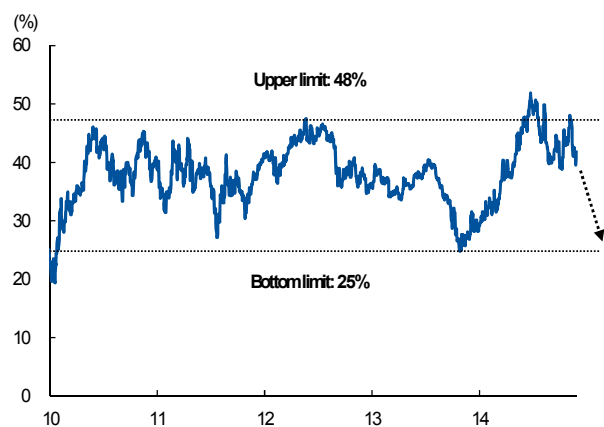
Source: KDB Daewoo Securities Research

Figure 2. P/B band



Source: KDB Daewoo Securities Research

Figure 3. Discount to NAV



Source: KDB Daewoo Securities Research

Table 2. Ownership structure of Samsung Techwin (Wbn, %)

Shareholders	Current			Disposal		
	Number of shares	Stake	Value	Number of shares	Stake	Sale value
SEC	13,526,935	25.5	459	13,526,935	25.5	661
Samsung C&T	2,273,350	4.3	77	2,273,350	4.3	111
Samsung Securities	1,037,896	2.0	35	1,037,896	2.0	51
Samsung Life	322,109	0.6	11	289,800	0.5	14
Samsung SDI	61,628	0.1	2	61,628	0.1	3
Samsung F&M	775	0.0	0	-	-	-
<b>Samsung Group</b>	<b>17,222,693</b>	<b>32.4</b>	<b>584</b>	<b>17,189,609</b>	<b>32.4</b>	<b>840</b>
NPS	3,774,233	7.1	128	-	-	-
Korea Investment Management	3,762,607	7.1	128	-	-	-
Other	28,370,467	53.4	962	-	-	-
<b>Total shares outstanding</b>	<b>53,130,000</b>	<b>100.0</b>	<b>1,801</b>	<b>17,189,609</b>	<b>32.4</b>	<b>840</b>

Notes: Based on November 25, 2014 closing price

Source: KDB Daewoo Securities Research

Table 3. Ownership structure and book value of Samsung Thales (Wbn, %)

Shareholders	Number of shares	Stake	Book value
Samsung Techwin	13,500,000	50.0	208
Thales International	13,500,000	50.0	208
<b>Total shares outstanding</b>	<b>27,000,000</b>	<b>100.0</b>	<b>416</b>

Source: KDB Daewoo Securities Research

Table 4. Ownership structure of Samsung General Chemicals (Wbn, %)

Shareholders	Current			Disposal		
	Number of shares	Stake	Value	Number of shares	Stake	Sale value
Samsung C&T	21,272,689	37.3	466	11,028,854	19.9	366
Samsung Techwin	12,970,973	22.7	225	-	-	-
Samsung SDI	7,473,437	13.1	342	7,473,437	13.5	248
Samsung EM	5,158,443	9.0	236	5,158,443	9.3	171
SEC	3,016,705	5.3	66	3,016,705	5.4	100
Lee Boo-jin	2,822,017	4.9	62	2,822,017	5.1	94
Samsung Fine Chemicals	1,744,623	3.1	38	1,744,623	3.1	58
Lee Kun-hee	553,210	1.0	12	553,210	1.0	18
Cheil Worldwide	163,558	0.3	4	163,558	0.3	5
<b>Samsung Group</b>	<b>55,175,655</b>	<b>96.7</b>	<b>1,452</b>	<b>31,960,847</b>	<b>57.6</b>	<b>1,060</b>
Treasury stock	1,589,540	2.8	35	-	-	-
Others	295,728	0.5	6	-	-	-
<b>Total shares outstanding</b>	<b>57,060,923</b>	<b>100.0</b>	<b>1,493</b>	<b>31,960,847</b>	<b>57.6</b>	<b>1,060</b>

Source: KDB Daewoo Securities Research

Table 5. Ownership structure and book value of Samsung Total (Wbn, %)

Shareholders	Number of shares	Stake	Book value
Samsung General Chemicals	9,582,658	50.0	1,236
Total Holdings	9,582,658	50.0	1,236
<b>Total shares outstanding</b>	<b>19,165,316</b>	<b>100.0</b>	<b>2,472</b>

Notes: Based on end- 2013 data

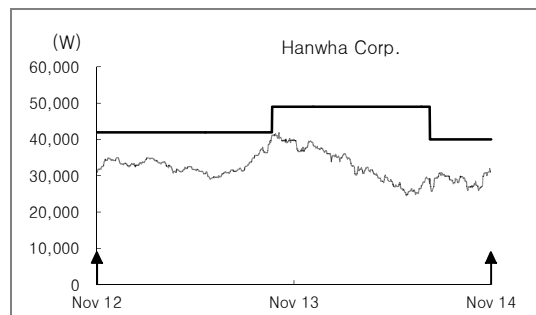
Source: KDB Daewoo Securities Research

## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hanwha Corp. (000880)	08/06/2014	Buy	40,000
	10/18/2013	Buy	49,000
	11/23/2012	Buy	42,000



#### 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.

\* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

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