

**Logistics**

Company Report  
March 29, 2018

(Maintain)	<b>Buy</b>
Target Price (12M, W)	▲ <b>210,000</b>
Share Price (03/28/18, W)	173,500
Expected Return	21%

OP (18F, Wbn)	732
Consensus OP (18F, Wbn)	763
EPS Growth (18F, %)	-20.0
Market EPS Growth (18F, %)	6.6
P/E (18F, x)	11.9
Market P/E (18F, x)	9.2
KOSPI	2,419.29
Market Cap (Wbn)	6,506
Shares Outstanding (mn)	38
Free Float (%)	48.6
Foreign Ownership (%)	33.4
Beta (12M)	0.14
52-Week Low	131,000
52-Week High	173,500

(%)	1M	6M	12M
Absolute	21.8	20.1	18.0
Relative	22.2	17.8	5.5



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[Transport/Energy]

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# Hyundai Glovis

(086280 KS)

## Poised for renewed growth

### HMG ownership restructuring creates auto supply giant

On March 28<sup>th</sup>, Hyundai Glovis announced its decision to merge with Hyundai Mobis' spun-off businesses (spinoff-merger ratio is 1:0.6148203). The company is acquiring the major businesses of Hyundai Mobis (012330 KS/Buy/TP: W300,000/CP: W261,500) at a valuation of 8.8x P/E (based on 2018F NOPAT), and their integration with Hyundai Mobis' module and A/S divisions would raise Hyundai Glovis' revenue and pretax profit to W30tr and W2.3tr, respectively (based on 2017 figures). We believe the deal will enable Hyundai Glovis to build a comprehensive auto supply chain across parts manufacturing, procurement, logistics, and after-service (A/S) parts.

Hyundai Glovis' biggest shareholders will later swap their shares (29.9%) with shares of the surviving Hyundai Mobis, which will free Hyundai Glovis from related-party transaction regulations. We believe this will pave the way for the company to secure additional affiliate deals, while also removing a major overhang risk.

### Renewed growth to set the stage for re-rating

**1) Implications of recent changes to articles of incorporation:** Hyundai Glovis recently amended its articles of incorporation to permit the issuance of new shares to non-shareholders "for the purpose of introducing new technology and improving the balance sheet." While the amendments appear to have been directly intended for the Mobis merger, we believe they also open the door to additional M&As and investments.

**2) Future growth drivers:** We believe Hyundai Glovis will ramp up its M&A activity and asset purchases, which are both essential for a logistics firm to achieve network expansion and cost reductions. In addition, the company's overseas subsidiaries could advance into non-affiliate businesses in their markets on the back of increased self-sufficiency. In particular, the integration with Hyundai Mobis' CKD segment could boost growth not only at the parent company, but also across overseas subsidiaries.

**3) New mobility:** New mobility (car sharing, etc.) is an area that makes good business sense for Hyundai Motor Group (HMG). We think Hyundai Glovis could see positive synergies from the combination of Hyundai Mobis' A/S parts and maintenance network with its car transport capabilities. In particular, tie-ups with the used car auction business could offer potential benefits in terms of business efficiency.

### Maintain Buy and raise TP to W210,000

We lift our target price on Hyundai Glovis to W210,000 (from W180,000). Our target price corresponds to a 2018F P/E of 14.5x and P/B of 1.9x, which are lower than the average multiples seen between 2013 and 2016 (P/E of 17.2x and P/B of 2.2x), when the company's growth potential was widely recognized. Based on post-merger NOPAT, our target price equates to a P/E of 12.8x, which we believe is reasonable, given expectations of synergies and accelerated growth.

While we are lowering our expectations on near-term earnings (our 1Q18 operating profit forecast is W178.4bn), we believe uncertainty over the group ownership structure has been lifted and expect the company to step up its pursuit of growth through M&As. Expectations related to the share swap by the company's largest shareholders could also serve as additional upside momentum.

FY (12)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	14,671	15,341	16,358	16,396	17,362	18,349
OP (Wbn)	698	729	727	732	761	835
OP margin (%)	4.8	4.8	4.4	4.5	4.4	4.6
NP (Wbn)	377	506	680	545	616	637
EPS (W)	10,052	13,483	18,147	14,523	16,433	16,991
ROE (%)	12.8	15.4	18.2	13.0	13.2	12.3
P/E (x)	19.2	11.5	7.5	11.9	10.6	10.2
P/B (x)	2.3	1.7	1.3	1.5	1.3	1.2
Dividend yield (%)	1.6	1.9	2.2	1.7	1.7	1.7

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

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## Maintain Buy and raise TP to W210,000

We raise our target price on Hyundai Glovis to W210,000 (from W180,000). Our new target price corresponds to a 2018F P/E of 14.5x and P/B of 1.9x, which are lower than the average multiples seen between 2013 and 2016 (P/E of 17.2x and P/B of 2.2x), when the company's growth potential was widely recognized.

We have revised our long-term earnings growth projections upwards for Hyundai Glovis, as uncertainties surrounding its corporate governance have been removed, thus heightening expectations for growth led by M&As and asset acquisitions. Indeed, a number of logistics firms in both Korea (e.g., CJ Logistics) and overseas (e.g., DHL, FedEx) have already been actively engaged in M&As, with subsequently heightened growth expectations leading to share price rerating. We believe that shares of Hyundai Glovis, long weighed down by its somewhat passive expansion strategy, are now set for re-rating, as its merger with Hyundai Mobis' spun-off businesses has helped to dissipate its valuation gap with peers.

Based on post-merger NOPAT, our target price equates to a P/E of 12.8x, which is higher than those of pre-merger Hyundai Mobis and Hyundai Glovis. We believe it is reasonable, however, given: 1) expectations of synergies from the merger; 2) the dissipation of overhang and regulatory risks; and 3) the firm's likely expansion into the car-sharing market. Going forward, a visible increase in merger-related synergies and expectations related to the share swap by the company's largest shareholders could serve as additional upside momentum.

Hyundai Motor Group expects revenue for Hyundai Mobis' spun-off businesses to grow from W14tr in 2017 to W15.5tr in 2022 and operating profit to rise from W1.4tr to W1.7tr. On a post-merger basis, we estimate revenue and operating profit will rise to W36tr (from W30tr in 2017) and W2.7tr (W2.2tr in 2017), respectively, in 2022.

**Table 1. Earnings forecasts for post-merger Hyundai Glovis**

(Wbn)

	2016	2017	2018F	2019F	2020F	2021F	2022F
Revenue	29,931	30,369	30,817	31,964	33,524	34,590	36,030
-Glovis	15,341	16,358	16,396	17,362	18,349	19,392	20,494
-Mobis' spun-off businesses	14,591	14,011	14,421	14,601	15,175	15,198	15,536
Gross profit	3,896	3,331	3,372	3,591	3,996	4,067	4,160
-Glovis	1,106	1,132	1,129	1,181	1,275	1,347	1,424
-Mobis' spun-off businesses	2,790	2,199	2,243	2,410	2,721	2,720	2,736
Operating profit	2,726	2,154	2,170	2,336	2,692	2,705	2,734
-Glovis	729	727	732	761	835	883	934
-Mobis' spun-off businesses	1,998	1,427	1,438	1,575	1,857	1,821	1,799
NOPAT	2,045	1,563	1,589	1,693	1,968	1,986	2,008
-Glovis	531	518	536	541	612	655	693
-Mobis' spun-off businesses	1,515	1,045	1,053	1,152	1,357	1,331	1,315

Source: Company data, Mirae Asset Daewoo Research

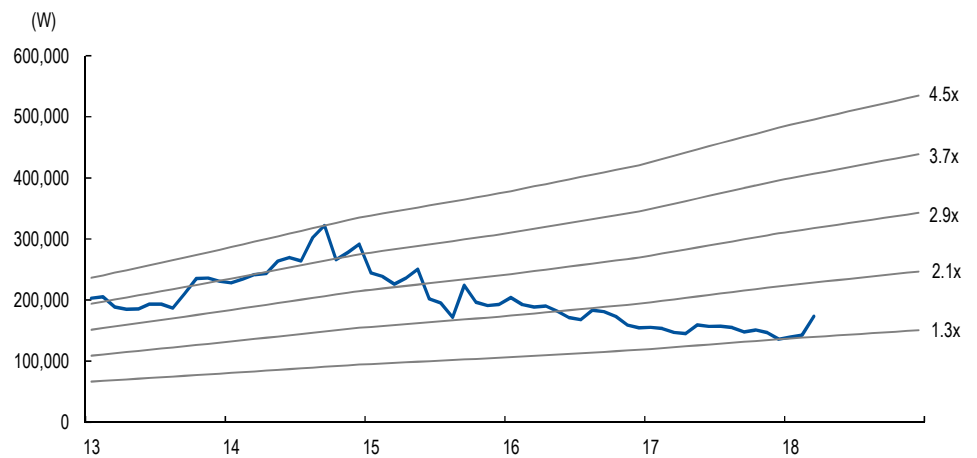
**Table 2. Valuation: RIM**

(Wbn)

	2017	2018F	2019F	2020F	2021F	2022F	2023F
Revenue	16,358	16,396	17,362	18,349	18,900	19,467	20,051
(Growth)	6.6%	0.2%	5.9%	5.7%	3.0%	3.0%	3.0%
New profit	680	547	619	635	661	681	702
(% of sales)	4.2%	3.3%	3.6%	3.5%	3.5%	3.5%	3.5%
Equity	3,989	4,423	4,930	5,452	6,114	6,795	7,497
(Growth)	14.7%	10.9%	11.4%	10.6%	10.6%	10.6%	10.6%
Forecast ROE	18.2%	13.0%	13.2%	12.2%	11.4%	10.6%	9.8%
Cost of equity	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
ROE spread	12.3%	7.0%	7.3%	6.3%	5.5%	4.6%	3.9%
Residual income	489	311	358	342	335	312	289
<b>Terminal value</b>	<b>2,728</b>						
NPV of FCFF	2,135	Beta	0.7				
PV of terminal value	1,529	Risk premium	6.0%				
Current book value	3,989	Risk free rate	2.0%				
Equity value	7,762	COE	6.0%				
Shares outstanding	37,500	Target PBR (FY18)	<b>1.9</b>				
<b>Target price (W)</b>	<b>210,000</b>	Target PER (FY18)	<b>14.5</b>				
Current price (W)	173,500	Target PEG	<b>-2.2</b>				

Source: Mirae Asset Daewoo Research

**Figure 1. Hyundai Glovis' P/B band**

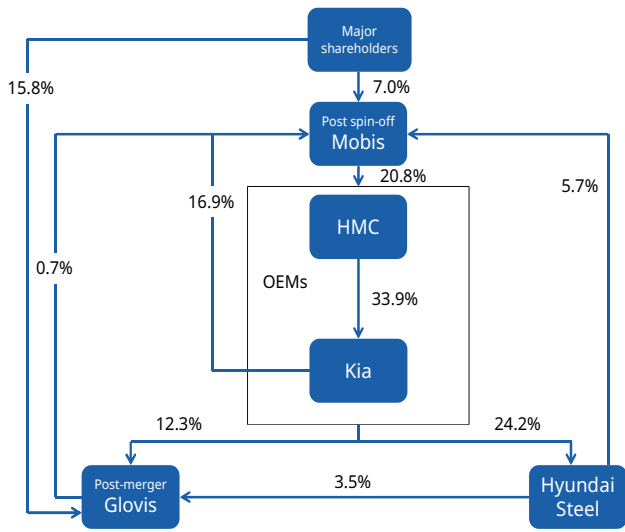


Source: Mirae Asset Daewoo Research

### Announcement of merger with Hyundai Mobis' spun-off businesses

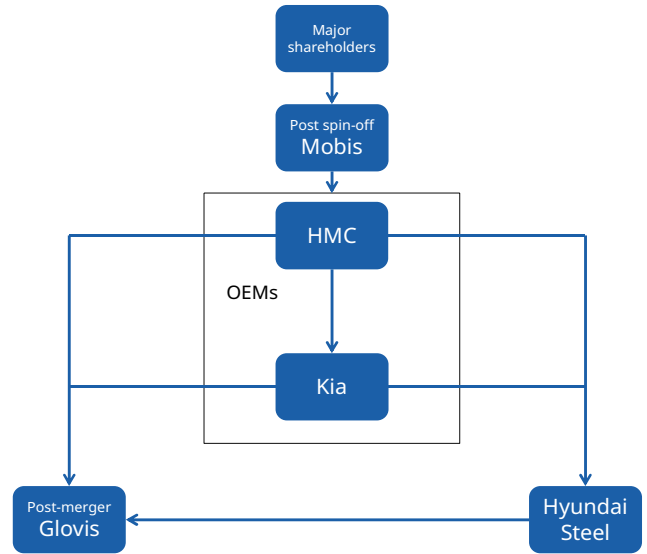
On March 28<sup>th</sup>, Hyundai Glovis announced its decision to merge with Hyundai Mobis' spun-off businesses (spinoff-merger ratio is 1:0.6148203). The company is acquiring the major businesses (module and A/S) of Hyundai Mobis (012330 KS/Buy/TP: W300,000/CP: W261,500) at a valuation of 8.8x P/E (based on 2018F NOPAT). The integration would raise Hyundai Glovis' revenue and pretax profit to W30tr and W2.3tr, respectively (based on 2017 figures). We believe the deal will enable Hyundai Glovis to build a comprehensive auto supply chain across parts manufacturing, procurement, logistics, and after-service (A/S) parts.

**Figure 2. Hyundai Motor Group's post-merger corporate structure**



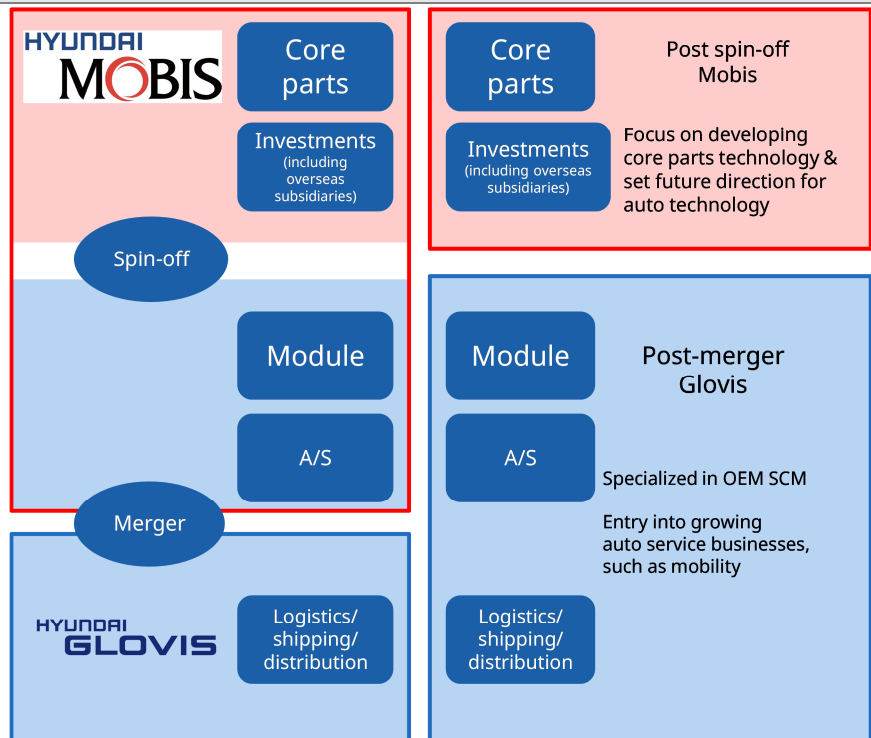
Source: Company data, Mirae Asset Daewoo Research

**Fig 3. Corporate structure after share transaction**



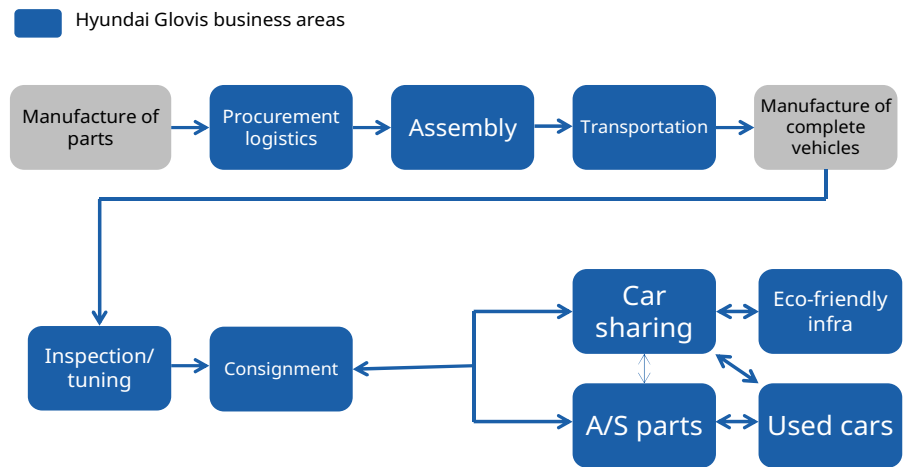
Source: Company data, Mirae Asset Daewoo Research

**Figure 4. Business overview of Hyundai Mobis and Glovis**



Source: Company data, Mirae Asset Daewoo Research

**Figure 5. Business direction of post-merger Hyundai Glovis**



Source: Company data, Mirae Asset Daewoo Research

**Table 3. Spin-off/merger ratio**

	Glovis (merged company)	Mobis' spun-off businesses	
		Common shares	Preferred shares
A. No. of shares before spin-off	37,500,000	97,343,863	3,974
B. Merger ratio per share	-	0.2104695	0.2104695
C. No. of shares after spin-off	37,500,000	20,487,914	836
D. Market price	W154,911	-	-
E. Intrinsic value	-	W452,523	-
-Asset value	-	W221,599	-
-Profit value	-	W606,472	-
F. Merger price	W154,911	W452,523	W218,482
G. Merger ratio	1	2.9211852	2.9211852
H. Spin-off/merger ratio (B*G)	1	0.6148203	0.6148203
I. Newly-issued shares due to spin-off merger (A*H)	-	59,848,983	2,443

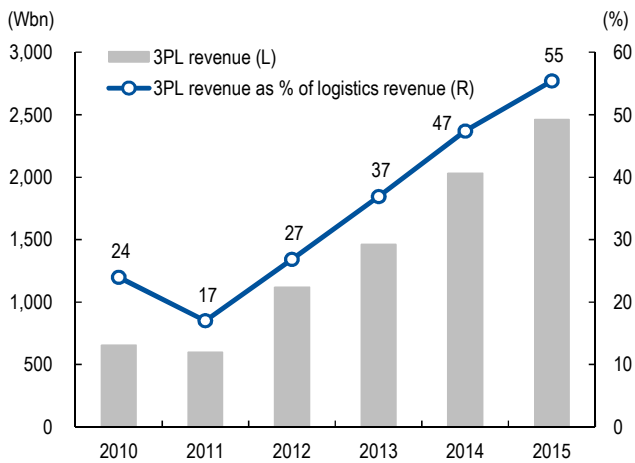
Source: Company data, Mirae Asset Daewoo Research

### Risks associated with related-party transactions to be removed

The possibility of toughened regulations on related-party transactions (lowering the stake threshold for the regulations from the current 30% to 20%) has long been viewed as a potential overhang risk for Hyundai Glovis. However, the firm's largest shareholders will later swap their shares (29.9%) with shares of the surviving Hyundai Mobis, which will free Hyundai Glovis from related-party transaction regulations. We believe this will pave the way for the company to secure additional affiliate deals, while also removing a major overhang risk. In addition, removal of uncertainty over the group ownership structure should allow the firm to step up its pursuit of growth through M&As and other measures.

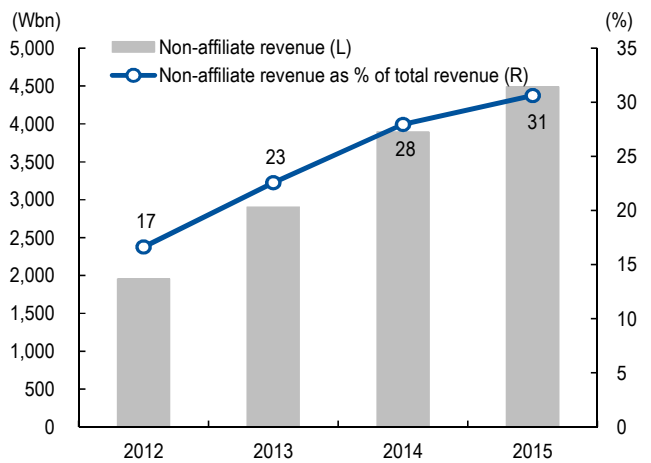
On another positive note, the merger with Hyundai Mobis' spun-off businesses should heighten expectations for expansion of Hyundai Glovis' CKD business, which has been facing concerns over a sell-off. The acquisition of Mobis' module businesses should enable Hyundai Glovis to improve its operational efficiency and profitability both in Korea and overseas.

**Figure 6. TPL revenue and % of total logistics revenue**



Source: Company data, Mirae Asset Daewoo Research

**Figure 7. Revenue from non-affiliated deals and % of total revenue**



Source: Company data, Mirae Asset Daewoo Research

### Renewed growth momentum

#### 1) Recent changes to articles of incorporation lay foundation for more M&As

Hyundai Glovis recently amended its articles of incorporation to permit the issuance of new shares to non-shareholders “for the purpose of introducing new technology and improving the balance sheet.” The amendment will newly allow for new share issuance to non-shareholders in cases of: 1) debt to equity swap by a financial institution; 2) investment in kind; and 3) issuance to partner companies, such as joint ventures and technology providers.

While the amendments appear to have been directly intended for the Mobis merger, we believe they also open the door to additional M&As and investments.

**Table 4. Amendment to Article 9 of Corporate Charter**

Before amendment	After amendment	Notes
Article 9 (shareholders’ preemptive rights)  (Omitted)  ② Notwithstanding the foregoing, the Company may issue new shares to those other than the existing shareholders in the following cases:  1 ~ 4 (Omitted) 5~7 (Newly added)	② Notwithstanding the foregoing, the Company may issue new shares to those other than the existing shareholders in the following cases to meet business purposes, including new technology adoption and financial structure improvement.  (Not amended)  5. Issuance of new shares, due to debt-for-equity swap by a bank or other financial institution, within the limit not exceeding 20/100 of the total outstanding shares  6. Issuance of new shares for investment in kind within the limit not exceeding 20/100 of the total outstanding shares  7. Issuance of new shares to partner companies, including domestic/overseas joint ventures, technology providers, and material/component suppliers, within the limit not exceeding 20/100 of the total outstanding shares	- Added the permitted cases of new share issuance           - Capital Markets Act

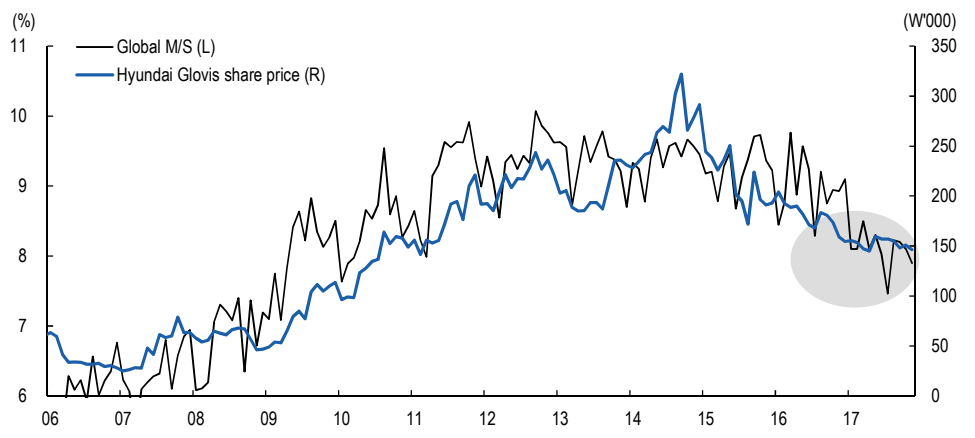
Source: Company data, Mirae Asset Daewoo Research

### 2) Rationales for additional M&As

Historically, shares of Hyundai Glovis have moved in line with Hyundai Motor Group (HMG)'s global market share. As HMG's global market share rose to nearly 10% in 2012 (from the 7%-range in 2009), Hyundai Glovis' valuation (P/E) topped 20x in 2014. However, HMG's global market share has been trending downwards since 2016, leading to a de-rating for Hyundai Glovis' shares. Despite their recent gains, the shares' P/E has remained at 9x levels. While the merger with Hyundai Mobis' core businesses has set the stage for a valuation re-rating, we believe that Hyundai Glovis will need to secure additional non-affiliate deals in order to boost growth in the longer term.

While Hyundai Glovis' net profit improved sharply in 2017, revenue grew just 6.6%, underscoring the impact of Hyundai Motor Group's (HMG) tepid sales. Thus, in order to revive growth, Hyundai Glovis will need to expand its non-affiliate volume, which has plateaued at around 30% of revenue.

**Figure 8. HMG's global market share vs. Hyundai Glovis' shares**



Source: Mirae Asset Daewoo Research

Increasing non-affiliate volume will require cost competitiveness and network expansion, which means the company will need to invest in quality assets and M&As. In the global logistics space, finding M&A cases is not difficult. Indeed, global players like DHL and FedEx were created as a result of a series of global M&As; global networks are essential in the freight forwarding industry.

Freight forwarding players, which have relatively low operating leverage, need to secure large quantities of freight volume to receive volume discounts from operators. We are still seeing active M&As among logistics players. For example, XPO Logistics recently acquired Norbert Dentressangle (France), a leading global contract logistics provider. CJ Logistics (Korea) has been proactively seeking M&A opportunities in India, Southeast Asia, and the Middle East, to broaden its reach beyond Korea and Northeast Asia.

**Figure 9. Hyundai Glovis' major customers (2015)**



Source: Hyundai Glovis, Mirae Asset Daewoo Research

**Table 5. FedEx's global network expansion**

Year	Acquiree
1984	- Gelco Express International
1989	- Tiger International Inc.
2004	- Kinko's Inc.
2006	- ANC Holdings Limited
2007	- Flying Cargo Hungary Kft - Tianjin Datian W. Group Co., Ltd. (50% of share) - Prakash Air Freight Pvt. Ltd.
2011	- AFL Pvt. Ltd./Unifreight India Pvt. Ltd. - Servicios Nacionales Mupa, S.A. de C.V.
2012	- Opek Sp.z.o.o - TATEX - Rapidao Cometa
2014	- Supaswift - Bongo International
2015	- GENCO
2016	- TNT Express

Source: FedEx, Mirae Asset Daewoo Research

Hyundai Glovis appears to have lost its M&A momentum, as Adampol - a Polish finished vehicle carrier that the company acquired in 2015 - has struggled, amid the Russian economic crisis. Of note, in the global logistics industry, the number and value of M&A deals have reached the highest level in five years. The number of M&A deals exceeded 70 in 2Q17, and the value of M&As is estimated at over US\$10bn in 2017. The average EV/EBITDA multiple of global logistics M&A deals climbed from 6.7x to in 2010 to 9.5x in 2016.

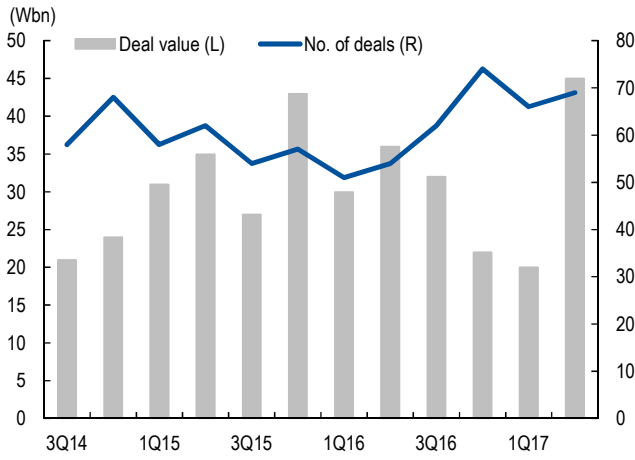
With governance uncertainties removed, Hyundai Glovis does not have to postpone M&As for growth. Furthermore, we believe the company should even consider M&A deals with companies in other industries. Given the recent logistics M&A trend, mergers between traditional logistics firms and companies with platform-based logistics business models are increasing. The acquisitions of uShip by DB Shenker, and Frigto, WebCargoNet, and Flexport by GV Ventures suggest a shift in logistics acquisition targets from assets and networks to smart platforms.

Table 6. Global logistics M&amp;As

Type	Method	Acquirer	Acquiree	Value (US\$m)	EV/sales	EV/EBITDA	
Onshore	Acquisition	Knight Transportation	Swift Transportation	3,818	0.9	8.0	
		New Breed	XPO Logistics	615	1.0	-	
		Dongbu Express	KTB Investment & Sec	640	0.8	24.6	
		APL Logistics	Kinetsu World Express	1,200	0.8	-	
		CMT International Logistics	Xinchen China Power Holdings	53	-	259.4	
		TNT Experss NV	FedEx	4,490	0.5	-26.2	
		Command Transportation	Echo Global Logistics	420	0.7	-	
		GENCO Distribution	FedEx	1,400	0.9	-	
		Hainan Traffic Adminstration	CWT	1,429	0.2	-33.8	
	Stake purchase	China COSCO Shipping Corp	Shanghai International Port	2,707	4.7	14.7	
		Sony Supply Chain Solutions	MITSUI-OKO Holdings	151	1.0	-	
		Panto Logistics	LG International	292	4.9	6.8	
		Eres NV	Rubis & Cie SCA	435	1.1	-	
		Hyundai Logistics	Orix	588	0.4	-11.4	
	Airline	Acquisition	American Securities	Air Methods Corp	2,477	2.1	8.7
			Alaska Air Group	Virgin America	2,364	1.5	9.2
			Malaysian Airline Systems	Khazanah Nasional	3,274	1.0	-23.4
Aer Lingus			International Conslidated Airlines Group	2,036	1.1	11.2	
Gama Aviation			Hangar 8	128	1.4	-	
Active Aero Group			Roadrunner Transportation Systems	115	0.4	-	
Stake purchase		Heibeir Airlines	China Southern Airlines	111	0.6	-	
	Delta Airlines	Grupo Aeromexico	721	1.1	9.5		
Offshore	Acquisition	Solstad Offshore ASA	Farstad Shipping	1,437	4.5	24.3	
		Sinotrans	China Merchants Logistics Holding	808	0.4	-	
		Pan Ocean	Harim Holdings	2,749	1.1	-81.1	
		Hurtigruten	Home Capital	582	1.4	7.5	
		Horizon Lines	Matson	557	0.5	6.2	
		Baltic Trading	Genco Shipping & Trading	287	7.6	-635.1	
		Solvtrans	Silver Holdings	230	4.7	9.2	
		Inui Steamship	Inui Warehouse	131	0.8	-11.4	
		China Elec Trans International Service	Shenzhen SED Industry	43	1.2	11.3	
		Hahn & Company Korea	H-Line Shipping	102	1.0	-	
	Stake purchase	Shanghai Beihai Shipping	China Shipping Development	133	3.3	-	
		Orkim	Ekuiti Nasional Foundation	109	2.7	-	

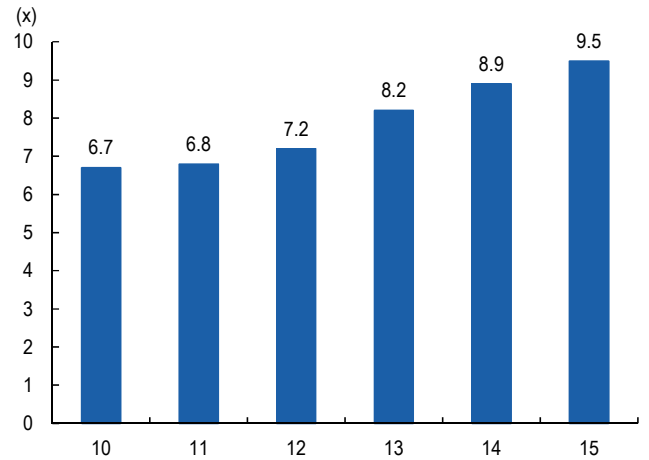
Source: FactSet, Mirae Asset Daewoo Research

**Figure 10. Number and value of global logistics M&A deals**



Source: CLO, Thomson Reuters, Mirae Asset Daewoo Research

**Figure 11. Average EV/EBITDA multiple of global logistics M&A deals**



Source: CLO, Thomson Reuters, Mirae Asset Daewoo Research

**Figure 12. Traditional M&As: Network expansion**

Acquirer	Acquiree	Value (\$Bn)
COSCO	OOCL	6
DSV	UTi	1.3
XPO	Norbert Dentressangle	0.5
	Geodis	3
CJ Logistics	Ibrakom/Century/Darcl/Gemadep/Rokin	0.7

Source: Mirae Asset Daewoo Research

**Figure 13. Smaller & smarter alliances and investments: Greater efficiency**

Investor/partner	Investor/partner	Details
DB Schenker	uShip	Logistics network
GE Ventures	Freightos WebCargoNet	Air cargo platform
Founders Fund	Flexport	Logistics platform
CJ Logistics	Mesh Korea	Last mile
Lotte Global	GoGoVan	Last mile

Source: Mirae Asset Daewoo Research

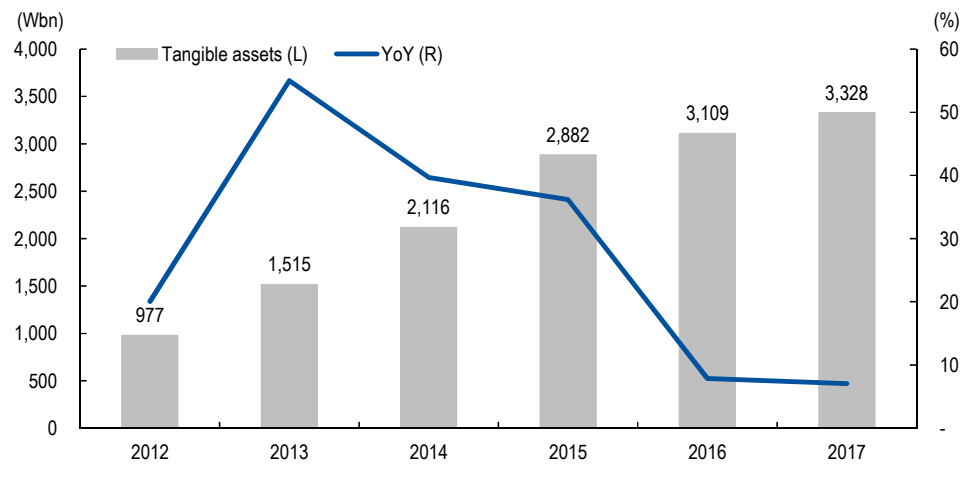
### 3) Secure cost competitiveness via asset purchases

If Hyundai Glovis is not in a position to pursue M&As immediately, we believe the company needs to ramp up asset purchases to recover its growth potential, as cost competitiveness, which is essential to win non-affiliate orders, can only be achieved via efficient asset purchase and operation. Although logistics asset purchases and network expansion require both a significant amount of time and heavy financial burden, we think such move is a step in the right direction for an asset-light logistics firm like Hyundai Glovis, in the long term.

Indeed, Hyundai Glovis has moved to expand its assets, including ships. The fleet of bulk carriers and pure car carriers (PCCs) owned by the company increased from 11 vessels in 2012 to 49 vessels in 2017, while its tangible assets expanded from W977.4bn in 2012 to W3.33tr in 2017. However, earnings were sluggish, due to the: 1) bulk carrier market slump; and 2) cost burden arising from high-rate charter agreements. In addition, the debt-to-equity ratio climbed. Although the company's asset expansion strategy has not paid off thus far, we believe the strategy itself is sound.

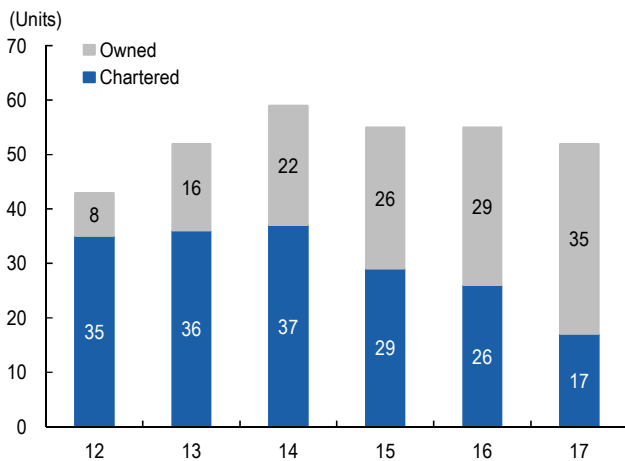
More importantly, even if its investments do not bear fruit instantly, the company should continue to make efforts to expand its assets and networks. If the bulk carrier market appears weak, the company could consider asset or stake purchases in the relatively stable PCC market.

**Figure 14. Hyundai Glovis' tangible asset trend**



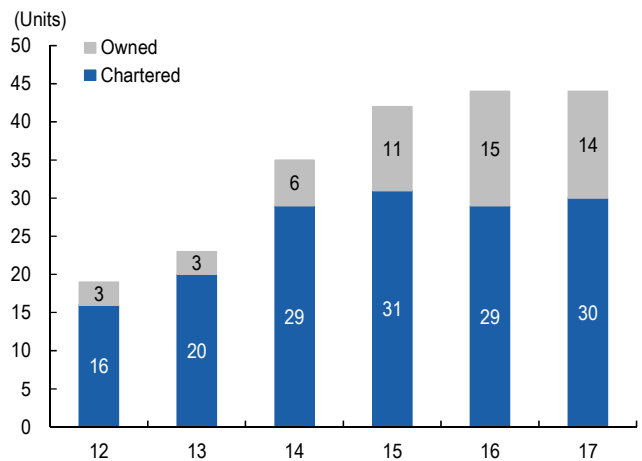
Source: Hyundai Glovis, Mirae Asset Daewoo Research

**Figure 15. PCC fleet trend**



Source: Hyundai Glovis, Mirae Asset Daewoo Research

**Figure 16. Bulk carrier fleet trend**



Source: Hyundai Glovis, Mirae Asset Daewoo Research

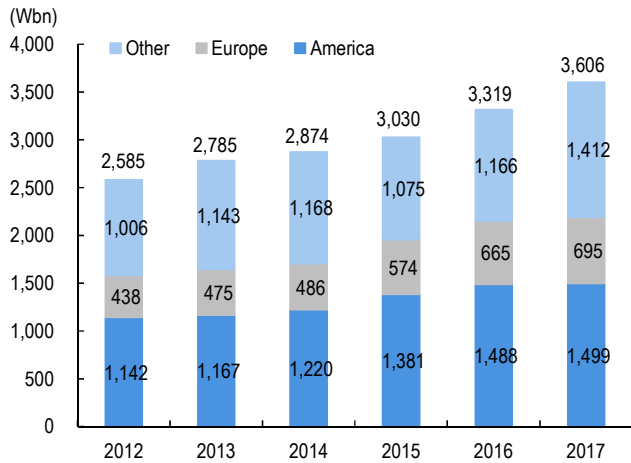
**4) Growth of overseas subsidiaries**

Hyundai Glovis has overseas subsidiaries in 10 countries, including the US, China, and Germany. Overseas subsidiaries' combined revenue increased from W2.6tr in 2012 to W3.6tr in 2017, accounting for 22% of the company's total revenue. The company's total overseas revenue stood at around W10tr in 2017.

The overseas business still has the highest growth potential among the company's business units, in light of HMG' increasing sales volume stemming from expansion into emerging markets. Furthermore, the company is currently expanding non-affiliate businesses, particularly in Vietnam (CKD), China, and India.

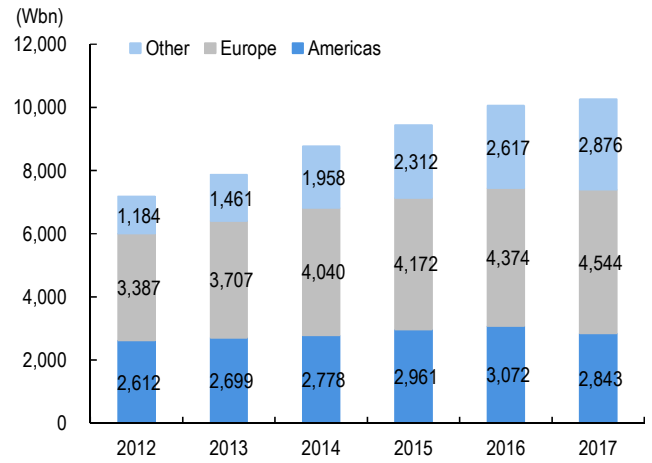
Hyundai Glovis' overseas subsidiaries have grown mainly on the back of HMG's regional expansion, so far. Going forward, however, we expect overseas growth to be driven by the expansion of its: 1) non-affiliate business; and 2) forwarding businesses, among overseas subsidiaries. In addition, if overseas subsidiaries clinch local M&A deals, their growth will likely accelerate. The integration with Hyundai Mobis' CKD business will further bolster the growth potential of overseas subsidiaries.

**Figure 17. Overseas subsidiaries' combined revenue**



Source: Hyundai Glovis, Mirae Asset Daewoo Research

**Figure 18. Overseas revenue trend**



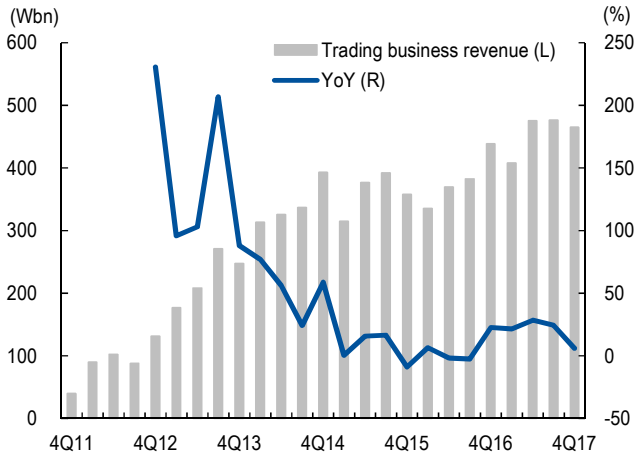
Source: Hyundai Glovis, Mirae Asset Daewoo Research

### 5) Growth potential of trading unit

Hyundai Glovis' trading unit engages in raw materials/parts procurement for HMG affiliates and non-ferrous metal trading. Full-fledged revenue generation began in 2011 and grew to W1.8tr in 2017. Although the trading unit posted solid profit during the periods of rising non-ferrous metal prices, the unit is a low-margin business with an OP margin of 0-1%. As such, the unit erodes the company's overall margins, despite its contribution to top-line growth.

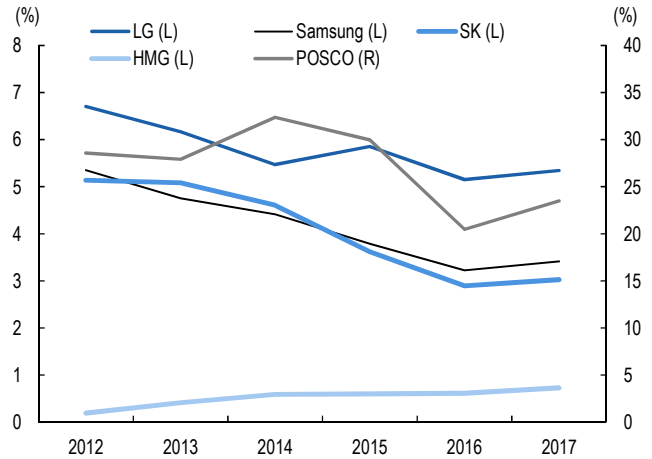
However, we see strong potential for revenue and margin growth at the trading unit. Of note, if the share swap by the company's largest shareholders frees Hyundai Glovis from related-party transaction regulations, the trading unit will likely enjoy additional growth, fueled by affiliate businesses, including the procurement of raw materials for Hyundai Steel and construction materials for Hyundai E&C. Given that the unit is the only trading business at HMG, we see ample growth opportunities, particularly in the CKD segment.

**Figure 19. Trading revenue trend**



Source: Hyundai Glovis, Mirae Asset Daewoo Research

**Figure 20. Trading revenue contributions of major business groups**

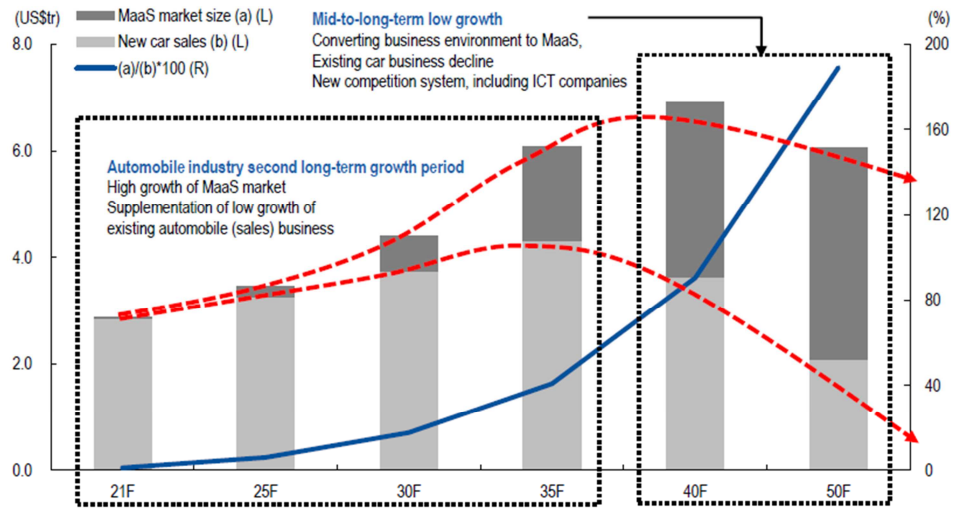


Note: Based on revenues at Hyundai Glovis, LG International, Samsung C&T, and SK Networks  
 Source: Each company data, Mirae Asset Daewoo Research

### High feasibility of car-sharing business

Along with the merger announcement, Hyundai Glovis unveiled plans to launch a car-sharing service business. Amid the emergence of new mobility, the key focus of the automobile industry is shifting from new car sales to services. Of note, the rise of car-sharing services as part of Mobility-as-a-Service (MaaS) should eventually lead to a slowdown, or even a decline, in new car sales, forcing traditional carmakers to shift to new business models.

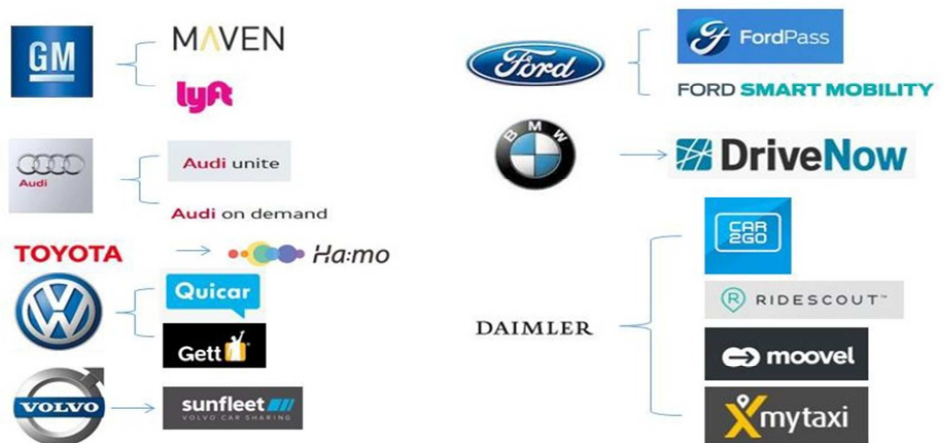
**Figure 21. Car sharing market outlook**



Source: Strategy Analytics, IHS Automotive, Mirae Asset Daewoo Research

However, it remains to be seen whether traditional carmakers will be able to drive - or at least keep up with - the new trend, amid the emergence of MaaS start-ups, namely Uber. In response to this trend, renowned global carmakers are venturing into the MaaS market or acquiring related start-ups. Despite being latecomers, they have the upper hand, in our view, due to: 1) robust captive demand from their own brands; and 2) advanced autonomous vehicle technologies.

**Figure 22. Global carmakers' car sharing businesses**



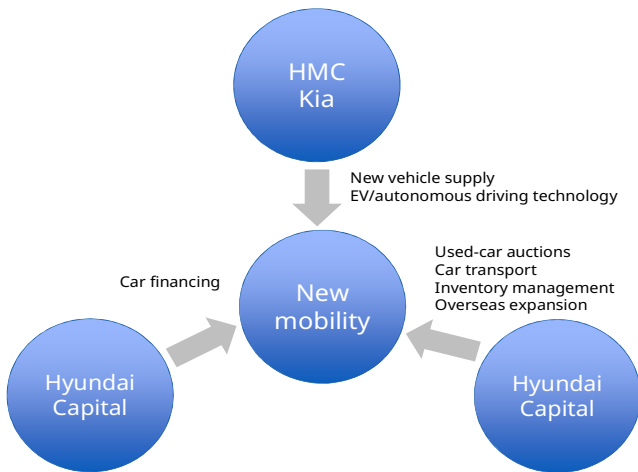
Source: Strategy Analytics, Mirae Asset Daewoo Research

Having developed its own autonomous vehicle technology, Hyundai Motor Group (HMG) is also likely to turn its eyes to the car sharing business. Currently, HMG is losing domestic market share to foreign carmakers, while its global market share is stagnating. Thus, it could find new growth opportunities in the fast-growing new market. With a financial services subsidiary, Hyundai Capital, under its umbrella, HMG could also see some benefits in a potential tie-up between the car sharing and car rental businesses.

Hyundai Glovis' used-car auction business is generating solid margins on annual revenue of around W400bn. The business is expected to serve as a core provider of assets and cash when Hyundai Glovis launches the car rental and car sharing businesses. As a logistics firm, the company could also provide car transport and inventory management services for the car rental business.

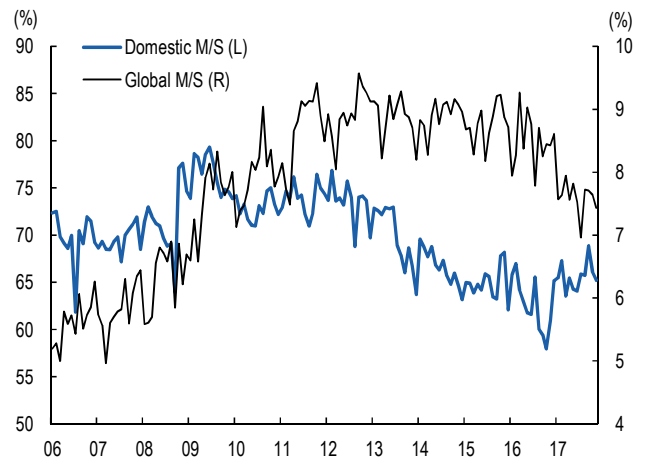
By expanding into the car rental and sharing spaces, HMG will be able to establish a complete value chain, ranging from existing car manufacturing/sale and used-car auction to services. In addition, we think HMG could see positive synergies from the combination of Hyundai Mobis' A/S parts and maintenance network with Hyundai Glovis' car transport capabilities.

**Figure 23. HMG's new mobility business plan**



Source: Mirae Asset Daewoo Research

**Figure 24. HMG's domestic and global market share trends**



Source: Mirae Asset Daewoo Research

**1Q18 preview: OP of W178.4bn**

We are lowering our expectations on Hyundai Glovis' near-term earnings (our 1Q18 operating profit forecast is W178.4bn). Amid sluggish sales across HMG (January-February sales volume of HMC and Kia Motors fell by 4% YoY and 2% YoY, respectively), the won appreciation trend will likely continue to weigh on CKD margins. The bulk shipping unit will also likely suffer in the short term due to the BDI downtrend. Accordingly, we expect to see a limited earnings momentum in the short term.

**Table 7. 1Q18 preview**

(Wbn, %, %p)

	1Q17	4Q17	1Q18F		Growth	
			Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	3,977	3,966	3,896	4,130	-2.0	-1.8
Operating profit	192	171	178	187	-7.0	4.5
OP margin (%)	4.8	4.3	4.6	4.5	-0.2	0.3
Pretax profit	302	259	180	194	-40.4	-30.4
Net profit	247	214	146	146	-40.9	-31.8

Note: Based on consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research

**Table 8. Earnings forecast revisions**

(Wbn, W, %)

	Previous		Revised		% chg.		Notes
	18F	19F	18F	19F	18F	19F	
Revenue	16,218	17,162	16,396	17,362	1.1	1.2	- Revised F/X rate assumptions upwards - Adjusted CKD margins
Operating profit	735	774	732	761	-0.4	-1.7	
Pretax profit	798	848	740	835	-7.3	-1.5	
Net profit	591	626	545	616	-7.8	-1.5	
EPS (KRW)	15,751	16,690	14,523	16,433	-7.8	-1.5	

Note: Based on consolidated K-IFRS

Source: Mirae Asset Daewoo Research estimates

**Table 8. Quarterly and annual earnings**

(Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18F	2Q18F	3Q18F	4Q18F	2017	2018F	2019F	2020F
<b>Revenue</b>	3,977	4,189	4,226	3,966	3,896	4,141	4,194	4,164	16,358	16,396	17,362	18,349
Domestic logistics	310	318	310	316	293	293	292	287	1,253	1,166	1,209	1,415
Overseas logistics	1,589	1,722	1,710	1,674	1,599	1,736	1,696	1,662	6,695	6,693	6,867	6,942
CKD	1,574	1,573	1,633	1,419	1,456	1,516	1,591	1,594	6,199	6,157	6,473	6,632
Used-car logistics	97	101	97	92	106	109	105	100	387	420	456	494
Trading	408	475	476	465	442	487	511	521	1,825	1,961	2,358	2,866
<b>Operating profit</b>	192	182	183	171	178	189	187	178	727	732	761	835
<b>Pretax profit</b>	302	149	180	259	180	186	205	169	889	740	835	861
<b>Net profit (consolidated)</b>	247	95	125	214	146	121	139	139	680	545	616	637
OP margin (%)	4.8	4.3	4.3	4.3	4.6	4.6	4.5	4.3	4.4	4.5	4.4	4.6
Pretax margin (%)	7.6	3.6	4.2	6.5	4.6	4.5	4.9	4.1	5.4	4.5	4.8	4.7
Net margin (consolidated, %)	6.2	2.3	3.0	5.4	3.7	0.9	1.0	1.0	4.2	3.3	3.5	3.5

Note: Not applied the merger with Hyundai Mobis, based on consolidated K-IFRS

Source: Mirae Asset Daewoo Research

## Hyundai Glovis (086280 KS/Buy/TP: W210,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
<b>Revenue</b>	<b>16,358</b>	<b>16,396</b>	<b>17,362</b>	<b>18,349</b>
<b>Cost of Sales</b>	<b>15,226</b>	<b>15,266</b>	<b>16,181</b>	<b>17,074</b>
<b>Gross Profit</b>	<b>1,132</b>	<b>1,130</b>	<b>1,181</b>	<b>1,275</b>
<b>SG&amp;A Expenses</b>	<b>405</b>	<b>397</b>	<b>420</b>	<b>440</b>
<b>Operating Profit (Adj)</b>	<b>727</b>	<b>732</b>	<b>761</b>	<b>835</b>
<b>Operating Profit</b>	<b>727</b>	<b>732</b>	<b>761</b>	<b>835</b>
<b>Non-Operating Profit</b>	<b>162</b>	<b>8</b>	<b>74</b>	<b>26</b>
Net Financial Income	-44	-12	-10	-8
Net Gain from Inv in Associates	45	47	52	54
Pretax Profit	889	740	835	861
Income Tax	209	195	219	224
Profit from Continuing Operations	680	545	616	637
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>680</b>	<b>545</b>	<b>616</b>	<b>637</b>
Controlling Interests	680	545	616	637
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>625</b>	<b>545</b>	<b>616</b>	<b>637</b>
Controlling Interests	625	545	616	637
Non-Controlling Interests	0	0	0	0
EBITDA	894	915	958	1,053
FCF (Free Cash Flow)	239	295	264	106
EBITDA Margin (%)	5.5	5.6	5.5	5.7
Operating Profit Margin (%)	4.4	4.5	4.4	4.6
Net Profit Margin (%)	4.2	3.3	3.5	3.5

## Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
<b>Cash Flows from Op Activities</b>	<b>607</b>	<b>695</b>	<b>744</b>	<b>786</b>
Net Profit	680	545	616	637
Non-Cash Income and Expense	231	367	370	392
Depreciation	159	176	191	213
Amortization	8	7	6	5
Others	64	184	173	174
Chg in Working Capital	-125	-14	-18	-16
Chg in AR & Other Receivables	-77	-99	-128	-111
Chg in Inventories	27	-33	-43	-37
Chg in AP & Other Payables	-59	53	68	59
Income Tax Paid	-155	-195	-219	-224
<b>Cash Flows from Inv Activities</b>	<b>-345</b>	<b>-465</b>	<b>-528</b>	<b>-722</b>
Chg in PP&E	-356	-400	-480	-680
Chg in Intangible Assets	-5	0	0	0
Chg in Financial Assets	36	-37	-48	-42
Others	-20	-28	0	0
<b>Cash Flows from Fin Activities</b>	<b>-298</b>	<b>-229</b>	<b>-205</b>	<b>-40</b>
Chg in Financial Liabilities	-270	-117	-92	72
Chg in Equity	0	0	0	0
Dividends Paid	-113	-113	-113	-113
Others	85	1	0	1
<b>Increase (Decrease) in Cash</b>	<b>-66</b>	<b>25</b>	<b>32</b>	<b>52</b>
Beginning Balance	595	529	554	586
Ending Balance	529	554	586	638

Source: Company data, Mirae Asset Daewoo Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
<b>Current Assets</b>	<b>3,872</b>	<b>4,063</b>	<b>4,311</b>	<b>4,549</b>
Cash and Cash Equivalents	529	554	586	638
AR & Other Receivables	2,083	2,187	2,321	2,437
Inventories	661	694	736	773
Other Current Assets	599	628	668	701
<b>Non-Current Assets</b>	<b>4,314</b>	<b>4,567</b>	<b>4,897</b>	<b>5,399</b>
Investments in Associates	466	489	519	545
Property, Plant and Equipment	3,356	3,580	3,869	4,336
Intangible Assets	72	64	58	53
<b>Total Assets</b>	<b>8,186</b>	<b>8,630</b>	<b>9,207</b>	<b>9,948</b>
<b>Current Liabilities</b>	<b>2,539</b>	<b>2,504</b>	<b>2,517</b>	<b>2,680</b>
AP & Other Payables	1,311	1,377	1,461	1,535
Short-Term Financial Liabilities	908	791	699	771
Other Current Liabilities	320	336	357	374
<b>Non-Current Liabilities</b>	<b>1,657</b>	<b>1,704</b>	<b>1,765</b>	<b>1,818</b>
Long-Term Financial Liabilities	708	708	708	708
Other Non-Current Liabilities	949	996	1,057	1,110
<b>Total Liabilities</b>	<b>4,196</b>	<b>4,208</b>	<b>4,282</b>	<b>4,498</b>
<b>Controlling Interests</b>	<b>3,990</b>	<b>4,422</b>	<b>4,925</b>	<b>5,450</b>
Capital Stock	19	19	19	19
Capital Surplus	154	154	154	154
Retained Earnings	3,804	4,236	4,740	5,264
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Stockholders' Equity</b>	<b>3,990</b>	<b>4,422</b>	<b>4,925</b>	<b>5,450</b>

## Forecasts/Valuations (Summarized)

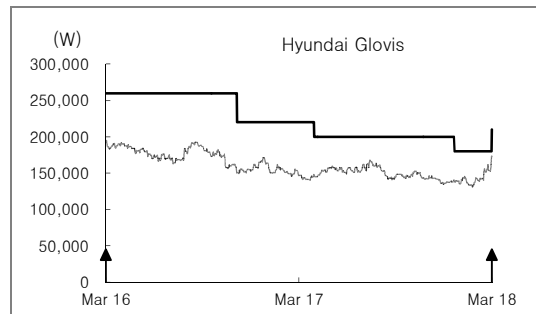
	12/17	12/18F	12/19F	12/20F
P/E (x)	7.5	11.9	10.6	10.2
P/CF (x)	5.6	7.1	6.6	6.3
P/B (x)	1.3	1.5	1.3	1.2
EV/EBITDA (x)	6.4	7.6	7.1	6.4
EPS (W)	18,147	14,523	16,433	16,991
CFPS (W)	24,303	24,307	26,290	27,454
BPS (W)	106,381	117,905	131,338	145,328
DPS (W)	3,000	3,000	3,000	3,000
Payout ratio (%)	16.5	20.7	18.3	17.7
Dividend Yield (%)	2.2	1.7	1.7	1.7
Revenue Growth (%)	6.6	0.2	5.9	5.7
EBITDA Growth (%)	1.0	2.3	4.7	9.9
Operating Profit Growth (%)	-0.3	0.7	4.0	9.7
EPS Growth (%)	34.6	-20.0	13.2	3.4
Accounts Receivable Turnover (x)	8.2	8.0	8.1	8.1
Inventory Turnover (x)	24.2	24.2	24.3	24.3
Accounts Payable Turnover (x)	13.8	14.1	14.1	14.1
ROA (%)	8.4	6.5	6.9	6.7
ROE (%)	18.2	13.0	13.2	12.3
ROIC (%)	11.8	11.0	10.8	10.9
Liability to Equity Ratio (%)	105.2	95.2	86.9	82.5
Current Ratio (%)	152.5	162.3	171.3	169.7
Net Debt to Equity Ratio (%)	15.1	9.9	5.7	5.1
Interest Coverage Ratio (x)	11.5	23.6	26.1	29.6

# APPENDIX 1

## Important Disclosures & Disclaimers

### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hyundai Glovis (086280)	03/29/2018	Buy	210,000
	01/17/2018	Buy	180,000
	04/27/2017	Buy	200,000
	12/02/2016	Buy	220,000
	01/12/2016	Buy	260,000



### 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 Mirae Asset Daewoo Co., Ltd., 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.
- \* 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.

### Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	75.50%	16.00%	8.50%	0.00%
Investment Banking Services	62.50%	33.33%	4.17%	0.00%

\* Based on recommendations in the last 12-months (as of December 31, 2017)

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