

KEPCO KPS

(051600 KS/Buy)

UAE nuclear plant maintenance deal: A mix of expectation and disappointment

- KEPCO KPS/KHNP consortium signs five-year maintenance deal for UAE nuclear plant
- The latest deal is an LTMSA/task order, which makes it difficult to estimate order size
- The deal may be small, but it provides a steady source of income

KEPCO KPS/KHNP consortium signs five-year maintenance deal for UAE nuclear plant

- Yesterday, KEPCO KPS disclosed that its consortium with Korea Hydro & Nuclear Power (KHNP) signed a maintenance deal with the UAE's Nawah Energy Company.

- The contract has a term of five years but can be extended if both sides agree. KEPCO KPS said it was difficult to estimate the size of the deal because it is a task order contract (meaning maintenance manpower support and services will be provided upon the request of the project owner).

- KHNP will likely be in charge of safety/instrumentation of the Barakah nuclear plant's four units, while KEPCO KPS will likely be responsible for providing manpower support and services for routine and planned outage maintenance work on the units.

LTMSA: A half success

- The latest deal is a long-term maintenance service agreement (LTMSA) and not a long-term maintenance agreement (LTMA).

- In other words, Nawah Energy will hold all responsibilities and authority related to maintenance of the plant, while the KHNP/KEPCO KPS consortium will be in charge of overseeing long-term maintenance. This means that KHNP/KEPCO KPS may not win all of the plant's maintenance contracts.

- Indeed, Doosan Heavy I&C (034020 KS/CP: W6,570) was separately tapped by Nawah Energy to maintain nuclear components (likely for instrumentation and control) through a maintenance service agreement (MSA).

A steady source of revenue and profit

- Given that the market had originally expected a 10-year deal valued at W1tr for the four units, the latest contract is likely to be worth up to W300bn for KEPCO KPS. That number could prove even lower, considering the potential for order wins by other consortiums. We estimate that the maximum annual average revenue and operating profit the company can derive from the latest deal are W60bn and W10bn, respectively.

- While the overall size and structure of the deal are somewhat disappointing, we are encouraged by the fact that the company has been selected as the lead contractor. While there is likely to be competition for additional orders, we think the project could serve as a steady source of revenue and profits for the company, considering the Barakah nuclear plant construction/maintenance/operation know-how held by the KHNP/KEPCO KPS consortium.

FY (Dec.)	12/16	12/17	12/18	12/19F	12/20F	12/21F
Revenue (Wbn)	1,223	1,237	1,242	1,274	1,299	1,351
OP (Wbn)	106	164	192	186	188	197
OP Margin (%)	8.7	13.3	15.5	14.6	14.5	14.6
NP (Wbn)	88	136	161	153	158	168
EPS (W)	1,962	3,021	3,585	3,403	3,515	3,729
ROE (%)	11.2	16.0	17.0	14.8	14.1	13.8
P/E (x)	27.6	13.4	9.3	9.7	9.4	8.8
P/B (x)	3.1	2.0	1.5	1.4	1.3	1.2
Dividend Yield (%)	1.3	3.6	4.4	4.5	4.5	4.5

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests

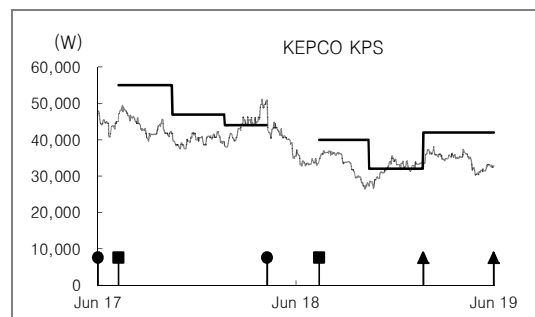
Source: Company data, Mirae Asset Daewoo Research estimates

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
KEPCO KPS (051600)	02/14/2019	Buy	42,000
	11/06/2018	Trading Buy	32,000
	08/06/2018	Trading Buy	40,000
	05/02/2018	Hold	-
	02/13/2018	Trading Buy	44,000
	11/08/2017	Trading Buy	47,000
	08/01/2017	Trading Buy	55,000
	07/29/2017	After 1yr	-
	07/29/2016	Hold	-



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	83.52%	8.24%	8.24%	0.00%
Investment Banking Services	82.61%	4.35%	13.04%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2019)

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