

Heerim Architects & Planners (037440, KQ)

**Hiding its Light under a Bushel
It Hides The Light, Raises Strength and
Waits For The Time.**

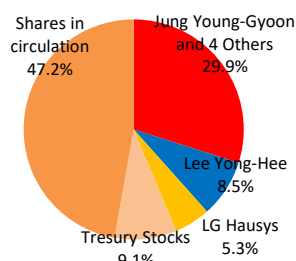
Business Issues

Infrastructure construction in each country is in full swing for attracting Chinese tourists. As of Feb. 2018, there are 178 airports construction planned for the Asia-Pacific region. The company is expected to gain a foothold in the international bidding competition as it has various domestic and international airport references including 'Incheon International Airport Passenger Terminal 2'. The company is expected to secure construction orders for 'Long Thanh International Airport' in Vietnam in 1H18, and to receive orders from Uzbekistan's airport within this year. The company will benefit from the market expansion.

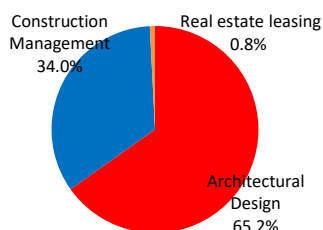
Keynote for Investment

- ① As the only listed company in Korea, which does architectural design and construction management (CM) simultaneously, the business synergies to be in full swing
- ② Domestic order volume to increase from benefiting from strengthening the building design standards such as the government's promotion of 'Urban Regeneration New Deal Project' and the 'Expanding the scope of seismic design criteria'
- ③ Profit improvement expected due to the enactment of the mandatory law on 'Payment of Fair Compensation for Architectural Design and Supervision' which was revised in Dec. 2017
- ④ Overseas sales portion to expand due to large-scale orders such as 'Long Thanh International Airport' (W30bn) in Vietnam and 'Tashkent International Airport' (W10bn) in Uzbekistan
- ⑤ A lot of growth momentum at home and abroad: 2018 earnings surprise forecast and nearing re-rating
- ⑥ Fair value calculation is based on the application a 15x PER multiple of domestic and overseas architectural design and CM related companies (AECOM, Hanmi Global, etc.) to 2018E EPS of W461

Shareholders



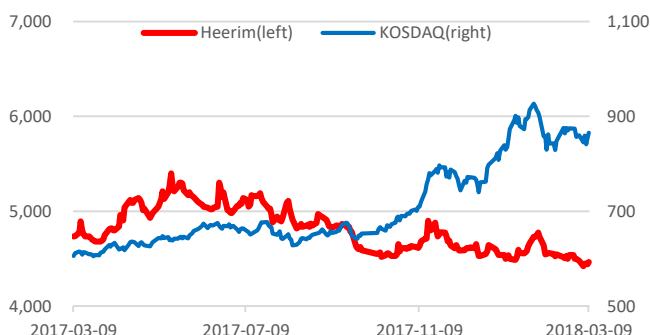
Sales composition (2018E)



Market Cap (W bn)	Forecast	Fair Value (KRW)	Share Price (KRW)	Upside (%)
62.2	Positive	6,900	4,465	54.5 ↑

KOSDAQ & Heerim Closing Price

(Unit : KRW, pt)



Investor trading status (Unit : share)

Date	Foreign	Individual	Institutional	Date	Contents
03/09	-2,851	2,786	-	03/09	General meeting of shareholders
03/08	-3,955	3,747	-		Date : 2018.03.26
03/07	-6,814	5,411	479	03/08	Major shareholder Ownership report
03/06	-7,376	7,237	-1		Jung Young-Gyoon : 28.28%
03/05	-8,108	8,009	-1	03/05	Change of CEO
03/02	-7,724	5,921	-2		Jung Young-Gyoon, Lee Mok un

Recent announcement

Operating results and major financial data

(Unit : W bn, W, x, %)

Category	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17E	2015	2016	2017E	YoY	2018E	YoY	2019E
Revenue	32.4	35.1	35.4	36.9	35.2	39.0	41.0	44.2	135.8	139.8	159.5	14.1%	179.4	12.5%	206.6
Architectural Design	20.1	20.5	24.0	25.0	20.0	20.1	22.9	29.8	87.0	89.6	92.9	3.7%	117.0	26.0%	130.0
Construction Management	11.9	14.2	11.2	11.7	15.0	18.6	17.8	14.0	48.5	49.0	65.4	33.6%	61.0	-6.8%	75.0
Real estate leasing	0.4	0.4	0.3	0.2	0.2	0.3	0.3	0.4	0.3	1.2	1.2	-5.9%	1.4	21.5%	1.6
Operating profit	1.2	1.5	1.9	0.9	1.9	1.3	1.8	3.7	7.0	5.4	8.7	60.4%	10.4	20.2%	13.0
OP margin	3.6%	4.1%	5.5%	2.3%	5.4%	3.3%	4.4%	8.3%	5.1%	3.9%	5.4%	-	5.8%	-	6.3%
Net Income	0.3	0.6	0.3	1.0	0.2	1.0	0.9	1.8	3.6	2.1	3.9	83.2%	6.4	63.0%	8.7
EPS	-	-	-	-	-	-	-	-	262	154	283	-	461	-	623
PER	-	-	-	-	-	-	-	-	15.6	33.5	16.4	-	9.7	-	7.2

The research is based on current public information that ResearchARUM considers reliable, but ResearchARUM does not represent it as accurate or complete and it should not be relied on as such. Furthermore, the research does not take into account particular investment objectives, financial situations or individual client needs, and ResearchARUM is in no way legally responsible for future returns or loss of original capital.

These data are also available on our website (www.researcharum.com).

**Expansion of Order Volume → Top-Line Growth → Fixed Cost Effect
→ Profit Improvement → Re-evaluation of Enterprise Value**

A Comprehensive
Construction
Service Company
Established in 1970

The company was listed on KOSDAQ in Feb. 2000 as a specialist in architectural design, construction supervision, and construction management, established in 1970. The company has secured world-class competitiveness in high value-added special design fields and has won references in various areas including public facilities such as Incheon International Airport Terminal 2, Gangneung Ice Arena, and university hospitals, hotels, and apartments.

The company's business consists of an architectural design division, construction management (CM) division covering construction supervision, and a real estate leasing division. In 2018, sales by business division are expected to be 65.2% for architectural design, 34.0% for CM and 0.8% for real estate leasing.

Architectural Design
and CM in Parallel
Business Synergies
In Earnest

The domestic architectural design market is estimated at W2.8tr this year. SAMOO, KUNWON, HAEAHN, JUNGLIM, etc. are among the domestic competitors in the design division. Among them, the company and SAMOO are the leading companies, competing to be Top 1 or 2, based on annual order size. In 2018, the company is expected to post new domestic orders of W145bn and a 5.2% market share in the design division (in 2017, domestic market share of 4.2% in design division).

In 2018, the size of domestic CM market is estimated at W1tr. Hanmi Global is a market leader while SAMOO CM and KUNWON ENG are the second group. The company is anticipated to record new orders of W70bn in 2018, with a market share of 7.0% (in 2017, domestic market share of 5.2% in CM division)

In 2018
High Growth
Prospects due to
Overseas Sales
Portion to Expand

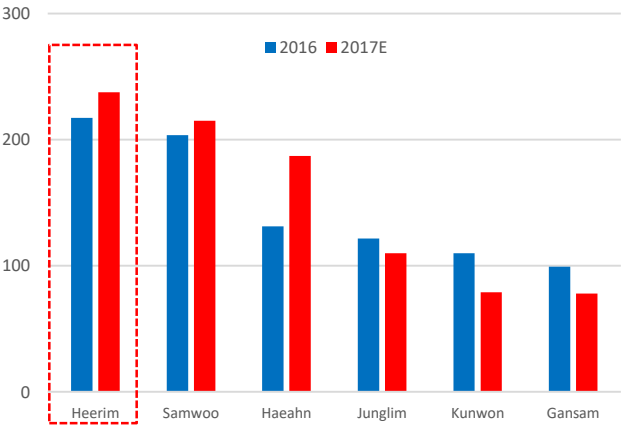
Despite the construction industry's steep decline from the peak in 2016, the company is the only listed company in Korea with a combination of architectural design and CM. Business synergies started to increase in earnest from last year. Based on IFRS in 2017, the company recorded provisional sales of W159.5bn (+14.1%, YoY), operating profit of W8.7bn (+60.4%, YoY) and net profit of W3.9bn (+83.2%, YoY).

The company is expected to achieve favorable operating results in 2018, thanks to a variety of earnings momentum. The company is expected to post sales of W179.4bn (+12.5%, YoY), operating profit of W10.0bn (+20.2%, YoY) and net profit of W6.4bn (+63.0%, YoY). We expect large-scale overseas orders, including Long Thanh Airport in Vietnam, to drive earnings improvement this year. As a result, the proportion of overseas sales in 2018 is expected to make a high growth to 15%. Overseas sales accounted for only 8% last year.

Stock Price Outlook
'Positive'
Present Fair Value
of W6,900

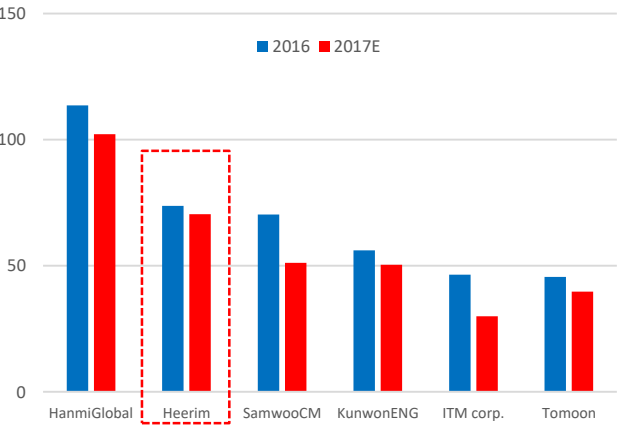
We present a fair value of W6,900, along with a 'positive' outlook for the company. For the calculation of the fair value, we applied a PER multiple of 15x to the 2018E EPS of W461 on average of domestic and overseas listed companies related to architectural design and CM (AECOM, Hanmi Global, etc.). We believe the PER of 15x applied to the fair value is reasonable as there are many positive factors; the proportion of overseas sales that are highly profitable is expanding, the design standards for buildings are strengthening due to the occurrence of the earthquake and large-scale fires in Korea, and the related budget is increasing due to the government's urban regeneration and smart city construction project.

[figure 1] Summary of Construction Orders by Domestic Architectural design Companies (Unit : W bn)



Sources : Each company, ResearchARUM

[figure 2] Summary of Construction Orders by Domestic Construction management Companies (Unit : W bn)



Sources : Each company, ResearchARUM

Expected to Enter Structural Growth Phase Due to Government Policies and Increase in Overseas Orders, Earnings To Improve.

By Enforcement of 'Urban egeneration New Deal Project' Domestic Order Volume To Increase

From this year, the 'Urban Regeneration New Deal Project' with a total budget of W50tr will be in full swing. The 'Urban Regeneration New Deal Project' is Moon Jae-In government's economy stimulus package, that develops over 500 old residential areas nationwide for the purpose of creating jobs and revitalizing the local economy. W10tr will be invested annually for the next five years to construct public buildings such as public rental houses, public rental stores, and support centers. The selection of 68 pilot cities across the country was completed last December, and construction orders will be launched starting from Jun. 2018, centering on each local government. Among the demonstration project areas, five sites including Saha in Busan and Pohang in Gyeongbuk will be promoted as urban generation in a type of smart city.

The company's business opportunities are expanding, thanks to the government's promotion of 'Urban Regeneration New Deal Project'. Through its industry-leading expertise and know-how. Related orders such as complex development project of old government buildings and smart city master plan services are continuing to be announced

Benefit From Reinforced Building Design Standards

The fact that the design standards are strengthened due to frequent earthquakes and large-scale fires is expected to have a positive impact on earnings improvement. After the earthquake of magnitude 5.4 in Pohang in Nov. 2017, the government extended the scope of the seismic design criteria to 33 kinds by adding logistic facilities and energy supply facilities to existing 31 kinds of airport, multi-purpose dam, school and so on. The company is expected to benefit from the earthquake-resistant design technology that overcomes the strong earthquake of magnitude 8.5 from its accumulated experience in domestic and overseas strong earthquake-stricken area projects.

Owing to large fires at Jecheon Sports Center and Miryang Nursing Hospital, design and supervision standards are strengthening. In December last year, the related legislation, the 'Some Amendments to Certified Architects Acts', passed the National Assembly plenary session. The main content is to provide fair compensation for the design or construction supervision contracts of all public construction projects to be concluded in the future, and to clarify responsibilities when problems arise. In the meantime, there were many indications that insolvent design and poor construction followed as public construction projects cost in Korea is only 30% of the cost of public construction projects in France, and public supervision costs are 3.1%, which is half of the 6.2% of the right cost. The revised bill will ease competition for low-priced orders for architectural design and CM market. Also, it is expected to increase the contract amount per order and improve the profitability because it also includes provisions to recommend the payment of fair compensation for private ordering construction.

Vietnam Long Thanh International Airport Design Order Imminent

Large-scale project orders are also visible in overseas markets this year. The company currently operates 12 overseas branches in the US, China, Iran, Vietnam, etc. The company was selected last year at the International Terminal Design Competition at the Long Thanh International Airport in Vietnam, with a total project cost of W1.8tr. It is expected to receive about W30bn in design orders in 1H18. In addition, it is predominantly believed that Uzbekistan's Tashkent Airport order receipts worth W10bn will be secured this year.

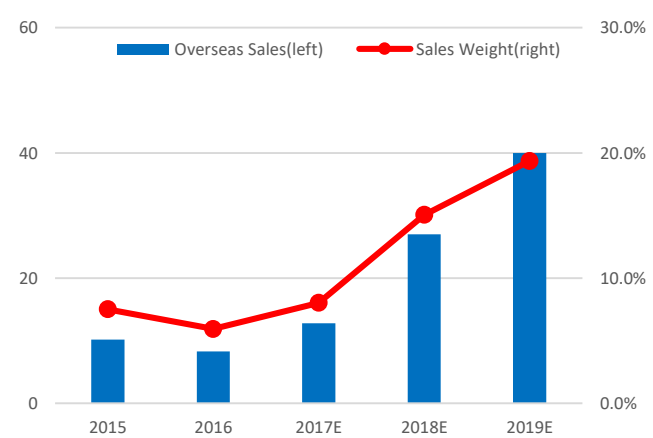
It is also positive that because of the increase of oil prices, public ordering in the Middle East is expanding. It is expected to participate in projects such as Al Wedyan development project near Riyadh in Saudi Arabia, Kish international airport and hospital construction business in Iran, and World Cup stadium construction in Qatar. Overseas sales are forecast at W27bn in 2018, more than double the previous year.

[figure 3] Urban Renewal New Deal Project, Summary of Support Scale by Category

Category	Project Area	Scale of Support per region
'Economy based' type	50,000㎡↓	5 W bn
'Save Our Neighborhood' type	50,000~100,000㎡	10 W bn
'Housing maintenance support' type	100,000~150,000㎡	10 W bn
'General neighborhood' type	200,000㎡	150 W bn
'Central city' type	500,000㎡	250 W bn

Sources : MOLIT, ResearchARUM

[figure 4] Annual Overseas Sales Volume and Weight (Unit: W bn, %)



Sources : Heerim, ResearchARUM

Heerim Estimated financial statements

(Unit : W bn)

Income Statement					
	2015A	2016A	2017F	2018F	2019F
Sales	135.8	139.8	159.5	179.4	206.6
Cost of Sales	108.6	119.4	133.7	148.9	170.4
Rate of sales cost(%)	80.0	85.5	83.8	83.0	82.5
Gross Profit	27.2	20.3	25.8	30.5	36.2
Gross Profit Margin(%)	20.0	14.5	16.2	17.0	17.5
SG&A	20.2	14.9	17.2	20.1	23.2
Operating Income	7.0	5.4	8.7	10.4	13.0
Operating Income Margin(%)	5.1	3.9	5.4	5.8	6.3
EBITDA	8.2	6.5	10.5	12.5	14.9
EBITDA Margin(%)	6.0	4.7	6.6	7.0	7.2
Non-Operating Profit	-2.9	-2.4	-3.7	-2.4	-2.1
Gains(Losses) in Associates, Subsidiaries and JVs	-0.1	-0.1	-0.1	-0.1	-0.1
Financial Income	1.3	1.0	0.4	0.7	0.7
Financial Costs	3.3	3.1	3.9	2.8	2.5
Others	-0.9	-0.3	-0.2	-0.2	-0.2
Pre-Tax Income	4.0	3.0	4.9	8.0	10.8
Pre-Tax Income Margin(%)	3.0	2.2	3.1	4.5	5.3
Income Tax Expenses	0.4	0.9	1.0	1.6	2.2
Tax Rate(%)	9.5	29.2	20.0	20.0	20.0
Income from Continuing Operations	3.6	2.1	3.9	6.4	8.7
Income from Discontinued Operations	0.0	0.0	0.0	0.0	0.0
Net Income	3.6	2.1	3.9	6.4	8.7
Net Income Margin(%)	2.7	1.5	2.5	3.6	4.2
Net Income Attri. to Controlling Shareholders	3.6	2.1	3.9	6.4	8.7
Net Income Margin(%)	2.7	1.5	2.5	3.6	4.2
Net Income Attri. to Non-Controlling Shareholders	0.0	0.0	0.0	0.0	0.0
Other Comprehensive Income	0.5	0.1	0.1	0.1	0.1
Total Comprehensive Income	4.2	2.2	4.0	6.5	8.8

(Unit : W bn)

Cashflow Statement					
	2015A	2016A	2017F	2018F	2019F
Cash Flows from Operating Activities	17.1	7.4	7.0	6.2	8.7
Net Income	3.6	2.1	3.9	6.4	8.7
Non-Cash Expenses	13.0	5.8	6.7	7.1	7.2
Depreciation	0.9	0.9	0.9	0.9	1.0
Gains(Losses) on Foreign Exchange	-0.6	-0.4	0.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	-0.1	-0.1	-0.1	-0.1	-0.1
Others	12.7	5.5	5.9	6.2	6.3
Changes in A/L from Operating Activities	3.3	3.3	-5.3	1.1	1.5
Other Cash Flows	0.0	-1.8	-1.0	-1.6	-2.2
Cash Flows from Investing Activities	-3.0	-0.5	-1.2	-0.8	-0.8
Investment Assets	-0.5	0.0	-0.5	0.0	0.0
Tangible Assets	0.0	0.0	0.0	0.0	0.0
Others	-2.5	-0.5	-0.7	-0.8	-0.8
Cash Flows from Financing Activities	-3.0	-4.8	-6.7	-6.0	-6.3
Short-Term Borrowings	-3.0	-1.0	-2.0	-4.0	-5.0
Short-Term Bonds	0.0	0.0	0.0	0.0	0.0
(Long-Term)Borrowings	0.0	3.0	-0.8	-0.8	0.0
(Long-Term)Bonds	0.0	0.0	8.8	0.0	0.0
Dividend	0.0	-1.3	-1.3	-1.3	-1.3
Others	0.0	-5.5	-11.4	0.0	0.0
Other cashflow	0.1	0.0	0.4	-3.6	-1.6
Incr.(Decr.) in Cash and Cash Equivalents	11.2	2.1	-0.4	-4.2	0.0
Beginning Cash and Cash Equivalents	5.0	16.2	18.3	17.9	13.7
Ending Cash and Cash Equivalents	16.2	18.3	17.9	13.7	13.7
NOPLAT	4.9	2.6	6.9	8.3	10.4
FCF	7.9	4.2	1.6	9.6	11.9

(Unit : W bn)

Balance Sheet					
	2015A	2016A	2017F	2018F	2019F
Current Assets	119.4	117.1	108.3	110.3	114.5
Cash and Cash Equivalents	16.2	18.3	17.9	13.7	13.7
Trade and Other Current Receivables	92.2	90.9	83.5	89.7	93.9
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	11.0	8.0	6.9	6.9	6.9
Non-Current Assets	23.1	26.3	26.1	25.7	25.4
Tangible Assets	1.7	3.3	2.1	2.1	2.1
Investments in Associates, Subs and JVs	0.1	0.0	0.0	-0.1	-0.1
Other Financial Assets	0.0	0.0	0.0	0.0	0.0
Non-Current Assets	21.3	22.9	24.0	23.6	23.5
Assets	142.5	143.4	134.4	136.0	140.0
Current Liabilities	83.4	92.5	72.8	69.9	66.4
Trade and Other Current Payables	34.0	37.1	31.7	32.8	34.3
ST Borrowings	37.1	36.1	34.1	30.1	25.1
Current Portion of Long-Term Debt	5.0	12.4	1.0	1.0	1.0
Other Current Liabilities	7.4	6.9	6.0	6.0	6.0
Non-Current Liabilities	11.2	2.0	10.1	9.3	9.3
Bonds	10.7	0.0	8.8	8.8	8.8
LT Borrowings	0.0	1.5	0.8	0.0	0.0
Other Non-Current Liabilities	0.5	0.5	0.5	0.5	0.5
Liabilities	94.7	94.6	82.8	79.2	75.7
Owners of Parent Equity	47.8	48.9	51.6	56.8	64.3
Capital Stock	7.0	7.0	7.0	7.0	7.0
Capital Surplus	7.4	7.4	7.4	7.4	7.4
Retained Earnings	41.3	42.2	44.8	49.9	57.3
Others	-7.8	-7.6	-7.5	-7.5	-7.4
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	0.0
Stockholders' Equity	47.8	48.9	51.6	56.8	64.3
Interest-Bearing Debts	52.7	50.0	44.6	39.9	34.9

(Unit : KRW, %, x)

Valuation Indicator					
	2015A	2016A	2017F	2018F	2019F
EPS	262	154	283	461	623
PER	15.6	33.5	16.4	9.7	7.2
BPS	3,435	3,510	3,705	4,079	4,615
PBR	1.2	1.5	1.3	1.1	1.0
EBITDAPS	589	469	751	899	1,067
EV/EBITDA	10.7	15.2	8.3	6.7	5.3
SPS	9,752	10,039	11,456	12,886	14,839
PSR	0.4	0.5	0.4	0.3	0.3
CFPS	1,140	524	714	919	1,087
DPS	0	0	0	0	0

(Unit : %, x)

Financial Ratio					
	2015A	2016A	2017F	2018F	2019F
Earnings Growth					
Sales Growth	0.1	2.9	14.1	12.5	15.2
OP Growth	Turned Profit	-22.4	60.4	20.2	24.4
NP Growth	Turned Profit	-41.1	83.2	63.0	35.3
Profitability					
ROIC	6.8	4.1	11.7	13.8	16.1
ROA	2.6	1.5	2.8	4.7	6.3
ROE	8.0	4.4	7.8	11.8	14.3
Stability					
Current Ratio	143.1	126.6	148.9	157.9	172.6
Debt Ratio	197.9	193.5	160.6	139.5	117.8
Interest Coverage	2.5	2.0	3.0	4.5	6.4

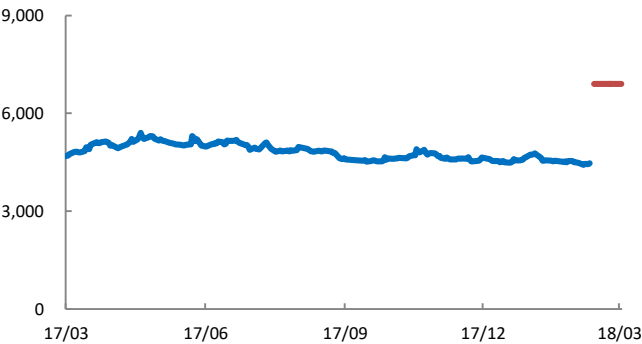
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Company & Industry opinion category

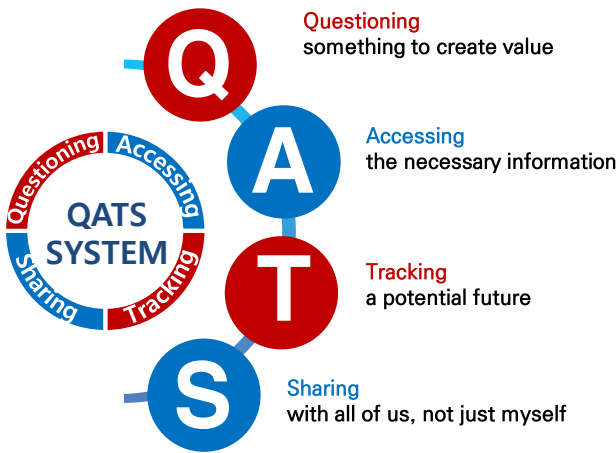
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|----------|--|
| Positive | Expected to rise by more than 30% in 3 months |
| Neutral | Expected to fluctuate by -10% ~ 10% in 3 months |
| Negative | Expected to decline by more than 10% in 3 months |

Heerim Closing Price & Fair Value (Unit : KRW)



Rating Change

Date	Fair Value (KRW)	Rating
2018.03.12	6,900	Positive



Independent ResearchARUM with QATS System
is Truly An Unbiased Milestone to Your Success.



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The Company has been notified to the Financial Supervisory Service (FSS) in conducting similar investment advisory business.

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