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4 May 2010

Korea

Miscellaneous

Reuters 037440.KQ
Bloomberg 037440 KQ

Priced on 3 May 2010

Korea Kospi @ 1,721.2

12M hi/lo 14,135/8,590 won

12M price target 12,600 won

±% potential +42%

Target set on 26 Feb 10

Shares in issue 12.9m

Free float (est.) 59.6%

Market cap US\$111m

3M average daily volume

0.3bn won (US\$0.3m)

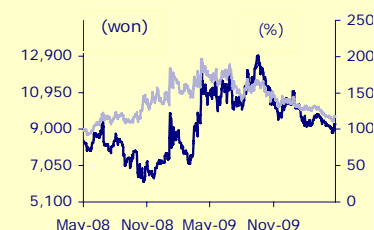
Major shareholders

Jeong, Young-Kyoon and related
40.4%

Foreign s'holding 10.4%

Stock performance (%)

	1M	3M	12M
Absolute	(4.8)	(8.3)	(17.9)
Relative	(4.7)	(13.9)	(34.7)
Abs (US\$)	(4.2)	(5.8)	(5.9)



— Heerim A&P (LHS)
— Rel to Kospi (RHS)

Source: Bloomberg

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1Q10 results

Heerim's 1Q10 results were mixed – Sales were better than expected by 10% but NP lower by 6% due to fx loss and interest. OP margin dropped from 8.4% in 1Q09 to 7.3% as overseas sales declined. Overall sales increased by 16% while new order was great at 258% growth or 127bn won. We believe this will start to transfer into revenue from 2H10 and become material in 2011. With 42% upside, we maintain BUY.

Stronger sales but weaker earnings

Heerim announced 1Q10 headline results after market yesterday. Sales and OP were stronger by 10% than our forecast but NP was lower by 6% as fx loss and interest expense were higher than our expectation. Sales growth was 16% YoY at 42bn won and OPM was 7.3%. Margin has improved from the 4.7% OPM in 4Q but still low compared to average 09 of 8.5% or 8.4% in 1Q09. We believe OPM will gradually improve but will be weaker at 8.3% for 2010 as overseas revenue, where margin is higher in average, is very low at less than 10% this year.

Order flow is good

New order was up 258% YoY at 127bn won. This quarterly record high number was possible as orders were strong in all division but especially in overseas construction management. Order growth will continue to be strong as the base is low and pipeline is healthy, expecting a 50% YoY growth in 2010. We believe these strong orders will be materialized in revenue from 2H10 and mostly in 2011. The overseas revenue is especially showing slow progress but we expect it to recover strongly in 2011.

Expect better numbers in 2011

Due to the stronger than expected sales but bigger loss in non-operating side, we are revising up sales by 8%, driven by higher CM sales, but NP down by 5% for this year. Overall earnings growth for this year unexciting at only 11% YoY. However, the higher than expected new order for this year is driving up sales and profit for 2011 by 14% and 5% respectively which equates to 30% YoY sales growth, 39% YoY OP growth and 50% NP growth YoY.

Strong BUY with 42% upside

Reflecting the results, we bring down 2010 earnings by 5% and 2011 by 1.6%. As our valuation base is a mix of 2010 and 2011, change to our valuation is minimal. The shareprice seems very undervalued looking at future growth profile, and we maintain our TP of 12,600won and BUY recommendation with 42% upside.

Financials

Year to 31 Dec	08A	09CL	10CL	11CL	12CL
Revenue (bn won)	155.84	157.90	188.53	243.76	300.74
Net profit (bn won)	15.79	8.72	10.30	15.46	23.82
EPS (won)	1,100.7	607.9	718.2	1,077.3	1,660.0
CL/consensus(5)(EPS%)	-	79	95	97	-
EPS (% YoY)	75.5	(44.7)	18.1	49.9	54.0
PEx (@8,880 won)	8.1	14.6	12.4	8.2	5.3
Dividend yield (%)	3.6	2.3	2.7	3.2	3.4
FCF yield (%)	(5.7)	3.3	4.1	16.5	14.3
ROAE (%)	30.8	15.0	15.7	18.2	22.3
Price/book (x)	2.0	1.6	1.4	1.3	1.1
Net gearing (%)	(4)	12	14	(16)	(24)

Source: CLSA Asia-Pacific Markets

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Figure 1

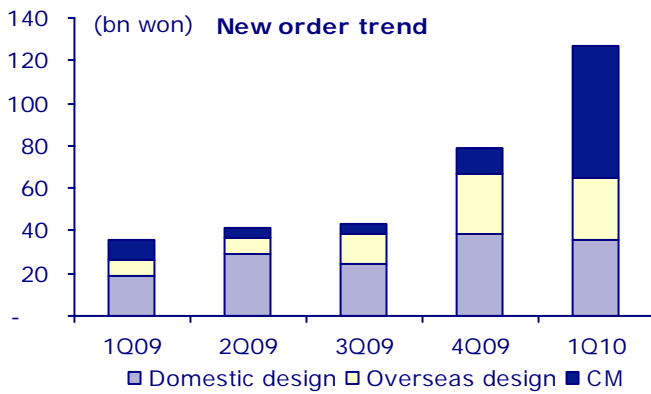
Heerim 1Q10 results

(bn won)	1Q10A	1Q10Con vs Cons	1Q10CL vs CL	1Q09A YoY%	4Q09A QoQ%
Sales	42.4	40.4 5.1	38.3 10.6	36.6 15.8	42.0 0.9
OP	3.1	3.8 (18.0)	2.8 10.1	3.1 (0.2)	2.0 55.6
NP	2.3	2.2 3.1	2.5 (6.6)	4.1 (44.4)	0.1 1955.4

Source: CLSA Asia-Pacific Markets

Figure 2

New orders showed strong growth



Source: CLSA Asia-Pacific Markets

Figure 3

Heerim quarterly revenue not picking up yet

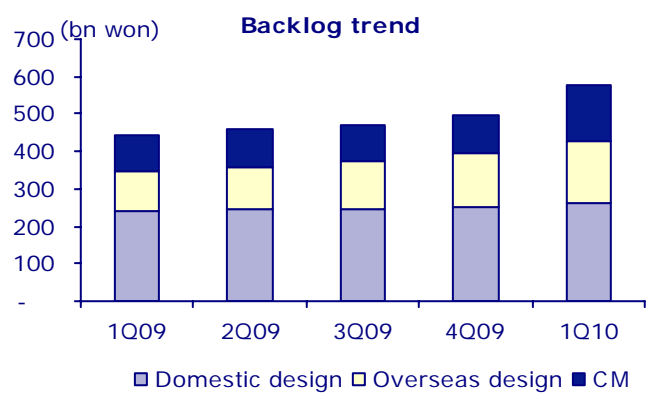


Figure 4

Revenue is still flat

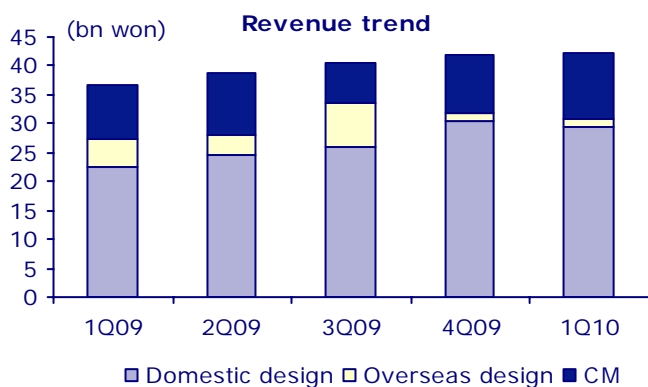
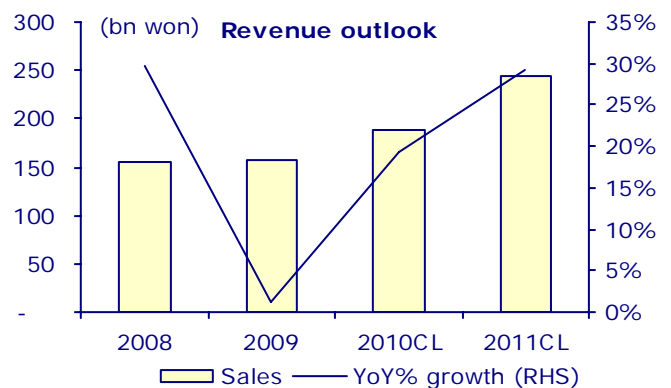


Figure 5

But strong orders will kick in next year



Source: CLSA Asia-Pacific Markets

New order was up 258% YoY at 127bn won. This quarterly record high number was possible as orders were strong in all division but especially in overseas construction management. Order growth will continue to be strong as the base is low and we expect a 50% growth in 2010. We believe these strong orders will be materialized in revenue from 2H10 and mostly in 2011. The overseas revenue is especially showing slow progress but we expect it to recover strongly in 2011.

Due to the stronger than expected sales but bigger loss in non-operating side, we are revising up sales by 8%, driven by higher CM sales, but NP down by 5% for this year. Overall earnings growth for this year unexciting at only 11% YoY. However, the higher than expected new order for this year is driving up sales and profit for 2011 by 14% and 5% respectively which equates to 31% YoY sales growth, 39% OP growth and 50% NP growth helped by GP and OP margin improvement and interest expense decline as their 15bn CB matures.

Figure 6

Forecast and TP change

(bn won, %)	2010CL			2011CL		
	Old	New	Change%	Old	New	Change%
Sales	174.3	188.5	8.1	215.3	246.1	14.3
OP	14.9	15.7	5.4	21.3	21.8	2.3
OPM	8.6	8.3	(0.2)	9.9	8.9	(1.0)
NP	10.88	10.30	(5.3)	15.9	15.6	(1.6)
NPM	6.2	5.5	(0.8)	7.4	6.4	(1.0)
New order	245.0	300.7	22.8	281.7	336.8	19.6
TP	12,600	12,600				
Last close (May 3)	8,880.0					
Upside	42%					

Source: CLSA Asia-Pacific Markets

Figure 7

1Q10 major new order list

Date	Client	Project	Amount (m won)
14-Jan-10	Incheon City Asian Games Support Co	2014 Incheon Asian Games Stadium design	3,286
19-Jan-10	Gangeum Corp	China Gangeum Hotel CM	8,400
21-Jan-10	Pie City	Yangjae Pie City CM	6,004
10-Feb-10	Hanoi Real Estate business and services	Mixed use residential apartments	2,932
26-Feb-10	State Oil Company of Azerbaijan	Azerbaijan State Oil Company Office building CM	9,596
2-Mar-10	National Bank Limited (Bangladesh)	National Bank Limited(NBL) Tower design & CM	21,793
2-Mar-10	Pinewood Foundation Inc Phillipinne	Manila Broadcast Complex Project design	26,851
4-Mar-10	EX development	Yeosu Hotel-resort design and CM	7,433

Source: CLSA Asia-Pacific Markets

Figure 8

Valuation

Bottom Up PE

Beta	0.75
Risk Free Rate	5.0%
Equity Risk Premium	7.0%
Cost Of Equity	10.3%
Payout Rate for 5 years	30.0%
Growth rate 5 years	20%
Stable Payout rate	55%
Stable Growth rate	3.0%
PE ratio first 5 yrs	1.9
Topline	1.4
Bottom Line	0.1
Terminal PE	12
Total PE	14
2010/2011EPS	898
TP on 14x	12,500
Last close	8,880
Upside	41%

Source: CLSA Asia-Pacific Markets

Summary P&L forecast (wonbn)

Year to 31 December	2008A	2009CL	2010CL	2011CL	2012CL
Revenue	156	158	189	244	301
Operating Ebitda	18	16	19	25	37
Operating Ebit	16	13	16	22	33
Interest income	0	0	0	0	0
Interest expense	0	(1)	(1)	0	0
Other items	4	(1)	(1)	(1)	(2)
Profit before tax	20	12	14	20	31
Taxation	(5)	(3)	(3)	(5)	(8)
Minorities and other	0	0	0	0	0
Profit	16	9	10	15	24

Summary cashflow forecast (wonbn)

Operating Ebit	16	13	16	22	33
Depreciation/amort	2	3	3	4	4
Working capital - trade	(27)	(15)	(17)	(6)	(16)
Other operating items	6	7	7	3	0
Operating cashflow	(3)	8	8	23	20
Net interest/taxes/other	(1)	(1)	(1)	0	0
Cashflow	(4)	7	8	24	21
Capital expenditure	(3)	(3)	(3)	(3)	(3)
Acq/inv/disposals	7	(6)	(5)	(6)	0
Free Cashflow	0	(2)	0	15	18
Ord div paid/Other items	(4)	(8)	(3)	11	(6)
Decrease in net debt	(4)	(10)	(3)	26	12

Summary balance sheet forecast (wonbn)

Cash & equivalents	2	8	5	16	28
Debtors - trade	44	60	84	99	123
Inventories - trade	0	0	0	0	0
Other current assets	3	9	4	4	1
Fixed assets	10	10	11	12	13
Intangible assets	5	4	4	4	4
Other term assets	10	11	16	22	22
Total assets	75	102	125	158	191
Short-term debt	0	0	0	0	0
Creditors - trade	0	0	0	0	0
Other current liabs	16	25	32	42	46
Long-term debt/CBs	0	15	15	0	0
Other long-term liabs	2	3	5	18	31
Minorities/other equity	0	0	0	0	0
Shareholder funds	56	60	72	98	115
Total liabs & equity	75	102	125	158	191

Ratio analysis

Revenue growth (%)	29.7	1.3	19.4	29.3	23.4
Op Ebitda growth (%)	27.0	(11.4)	18.6	33.3	45.3
Op Ebit growth (%)	26.9	(15.1)	17.6	36.8	51.9
Op Ebitda margin (%)	11.7	10.2	10.1	10.5	12.3
Op Ebit margin (%)	10.1	8.5	8.3	8.8	10.9
Net profit margin (%)	10.1	5.5	5.5	6.3	7.9
Dividend payout (%)	29.1	32.9	33.4	26.0	18.1
Tax rate (%)	22.5	27.2	24.2	24.2	24.2
Ebitda/net int exp (x)	(45.9)	60.9	23.0	(96.9)	(89.6)
Net debt/equity (%)	(4.4)	11.8	14.4	(16.3)	(24.3)
Gross debt/equity (%)	0.0	25.1	20.9	0.0	0.0
Net debt/op Ebitda (x)	(0.1)	0.4	0.5	(0.6)	(0.8)
Gross debt/op Ebitda (x)	0.0	0.9	0.8	0.0	0.0
Return on equity (%)	30.8	15.0	15.7	18.2	22.3
ROCE (%)	42.6	20.3	19.4	24.5	36.6
Return on assets (%)	24.0	9.9	9.1	10.9	13.6

Source: CLSA Asia-Pacific Markets

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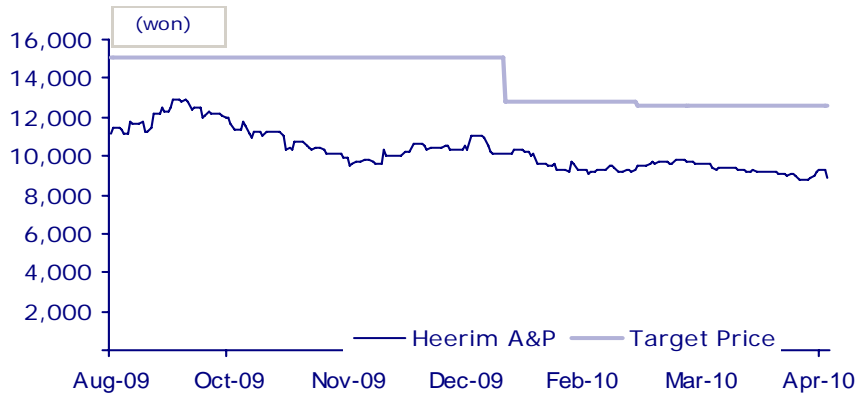
Recommendation history - Heerim Architects & Planners 037440 KQ

Date	Rec level	Closing price	Target
26 February 2010	BUY	9,290.00	12,600.00
11 January 2010	BUY	10,100.00	12,800.00
27 August 2009	BUY	11,250.00	15,096.15

Source: CLSA Asia-Pacific Markets

Figure 3

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Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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