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3 November 2009

Korea

Miscellaneous

Reuters 037440.KQ
Bloomberg 037440 KQ

Priced on 2 November 2009

Korea Kospi @ 1,580.7

12M hi/lo 14,700/6,298 won

12M price target 15,700 won

±% potential +40%

Target set on

Shares in issue 12.9m

Free float (est.) 59.6%

Market cap US\$127m

3M average daily volume

1.3bn won (US\$1.0m)

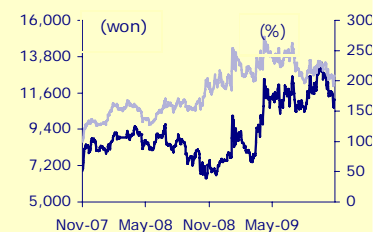
Major shareholders

Chung Young Kyun and related
40.4%

Foreign s'holding 10.4%

Stock performance (%)

	1M	3M	12M
Absolute (11.8)	3.7	55.3	
Relative (8.2)	2.2	9.4	
Abs (US\$) (12.1)	7.7	69.5	



Source: Bloomberg

www.cls.com

3Q09 results

Heerim reported their 3Q result, which was broadly in line with consensus and our forecast. Revenue was 40.6bn won (-5.4% YoY) and OP was 4.2bn won (-32% YoY), but this was a more normalized margin of 10.3%. 43bn of new orders in 3Q09 shows that orderflow has improved from the bottom early this year. We expect this trend to continue as we see improving sentiment in the private sector. We continue to like Heerim's structural growth story and recent weakness in the share price offers a good buying opportunity. BUY with 40% upside to our target price of 15,700 won.

Overall in line results

Heerim's 3Q09 revenue was 40.6bn won, down 5.4% YoY and OP was 4.2bn won, down 32% YoY. This was slightly lower than consensus (44.2bn) and our forecast (42.8bn), but inline overall while we did see some downward revisions in consensus numbers recently. We should bear in mind that 3Q08 had a very high margin of 14.8% due to high overseas revenue and the 10.3% OP margin in 3Q09 is more of a normalized margin. Overseas revenue showed improved realization while the CM division was weaker than expected.

Order flow recovering

The company received 43bn worth of new orders in 3Q, which is down 5% YoY, but the trend is recovering this year QoQ. Overseas order was strong at 14.2bn won, also similar to last year, and doubled that of 2Q mostly due to the 13.8bn won Abu Dhabi order. We believe order flow will continue to improve as we are seeing private sector order flow picking up. The company is currently bidding for various overseas orders in 4Q, not only in existing markets, but also in new markets in South East Asia.

Attractive growth story

We continue to like the company's structural growth story as a market leader in the changing paradigm that is the architectural design market in Korea. Delivering 21% cagr over the last 10 years, they will continue to grow market share in both domestic and overseas by expanding their region in the Middle East and South East Asia. We expect 13.3% cagr in revenue over 08-11CL.

BUYing opportunity

We have adjusted 09 sales and profit by about 3%, reflecting 3Q results. Change to 2010 is minimal. The stock seems cheap considering their growth as it is currently trading at 10x 10CL. Our target price of 15,700 won, which is equal to 14x10CL and gives 40% upside. We believe that the recent share price weakness offers a good buying opportunity.

Financials

Year to 31 Dec	07A	08A	09CL	10CL	11CL
Revenue (bn won)	120.13	155.84	169.90	205.19	226.74
Net profit (bn won)	8.99	15.79	13.03	16.04	18.39
EPS (won)	626.9	1,100.7	908.5	1,117.8	1,281.6
CL/consensus(5)(EPS%)	-	-	-	-	-
EPS (% YoY)	160.4	75.5	(17.4)	23.0	14.6
PEX (@11,200 won)	17.9	10.2	12.3	10.0	8.7
Dividend yield (%)	4.4	2.8	2.2	2.7	2.9
FCF yield (%)	2.8	(4.5)	(2.4)	3.3	7.7
ROAE (%)	22.7	30.8	21.2	22.2	19.8
Price/book (x)	1.6	2.6	1.9	1.6	1.5
Net gearing (%)	(23)	(10)	(1)	(2)	(22)

Source: CLSA Asia-Pacific Markets

Figure 1

Heerim 3Q09 results summary

(bn won)	3Q08	2Q09	3Q09	YoY	QoQ	3Q09CL	Diff%
Sales	42.9	38.6	40.6	-5.4%	5.0%	42.8	-5.2%
Domestic design	15.5	24.6	26.0	68.2%	5.5%	26.7	-2.5%
Overseas design	18.2	3.5	7.6	-58.3%	115.3%	7.2	5.1%
Construction management	9.2	10.5	7.0	-24.4%	-33.4%	8.9	-21.5%
OP	6.1	4.1	4.2	-31.9%	0.7%	4.4	-5.1%
Pre tax profit	8.4	3.3	3.5	-58.4%	6.9%	4.5	-22.3%

Source: CLSA Asia-Pacific Markets

Figure 2

Forecast change

	2009CL			2010CL		
	Old	New	Change%	Old	New	Change%
Sales	174.8	169.9	(2.8)	206.3	205.2	(0.5)
OP	17.5	17.0	(2.8)	21.6	21.5	(0.5)
NP	13.5	13.0	(3.1)	16.07	16.04	(0.2)
EPS	1,029.4	997.0	(3.1)	1,228.9	1,226.7	(0.2)
New order	172.6	174.8	1.3	222.9	222.7	(0.1)
Backlog	345.6	342.9	(0.8)	362.2	360.4	(0.5)

Source: CLSA Asia-Pacific Markets

Summary P&L forecast (won bn)

Year to 31 December	2007A	2008A	2009CL	2010CL	2011CL
Revenue	120	156	170	205	227
Operating Ebitda	14	18	19	25	29
Operating Ebit	12	16	17	21	24
Interest income	0	0	0	0	0
Interest expense	0	0	0	0	0
Other items	0	4	0	0	0
Profit before tax	13	20	17	21	25
Taxation	(4)	(5)	(4)	(5)	(6)
Minorities and other	0	0	0	0	0
Profit	9	16	13	16	18

Summary cashflow forecast (won bn)

Operating Ebit	12	16	17	21	24
Depreciation/amort	2	2	2	3	4
Working capital - trade	16	30	45	55	61
Other operating items	(13)	(54)	(59)	(57)	(59)
Operating cashflow	17	(6)	4	22	30
Net interest/taxes/other	(10)	2	(5)	(13)	(13)
Cashflow	7	(4)	0	10	17
Capital expenditure	(2)	(3)	(4)	(4)	(5)
Acq/inv/disposals	(6)	6	0	(7)	(7)
Free Cashflow	(1)	(1)	(4)	(2)	5
Ord div paid/Other items	4	(2)	(1)	(5)	10
Decrease in net debt	3	(4)	(5)	(7)	15

Summary balance sheet forecast (won bn)

Cash & equivalents	6	2	13	6	6
Debtors - trade	20	44	60	73	81
Inventories - trade	0	0	0	0	0
Other current assets	9	3	3	3	3
Fixed assets	9	10	12	13	14
Intangible assets	5	5	4	4	4
Other term assets	8	10	10	18	25
Total assets	57	75	103	117	132
Short-term debt	0	0	0	0	0
Creditors - trade	0	0	0	0	0
Other current liabs	5	10	11	12	13
Long-term debt/CBs	0	0	15	15	0
Other long-term liabs	6	9	10	12	12
Minorities/other equity	0	0	0	0	0
Shareholder funds	46	56	66	78	107
Total liabs & equity	57	75	103	117	132

Ratio analysis

Revenue growth (%)	31.3	29.7	9.0	20.8	10.5
Op Ebitda growth (%)	133.8	27.0	6.7	27.7	14.9
Op Ebit growth (%)	162.0	26.9	7.8	26.6	13.9
Op Ebitda margin (%)	11.9	11.7	11.4	12.1	12.6
Op Ebit margin (%)	10.3	10.1	10.0	10.5	10.8
Net profit margin (%)	7.5	10.1	7.7	7.8	8.1
Dividend payout (%)	79.0	28.3	27.3	27.3	24.9
Tax rate (%)	30.2	22.5	25.0	25.0	25.0
Ebitda/net int exp (x)	(73.3)	(45.9)		237.6	(625.3)
Net debt/equity (%)	(22.6)	(9.5)	(0.9)	(1.7)	(22.2)
Gross debt/equity (%)	0.0	0.0	22.6	19.2	0.0
Net debt/op Ebitda (x)	(0.7)	(0.3)	0.0	(0.1)	(0.8)
Gross debt/op Ebitda (x)	0.0	0.0	0.8	0.6	0.0
Return on equity (%)	22.7	30.8	21.2	22.2	19.8
ROCE (%)	41.3	46.1	29.8	30.1	30.5
Return on assets (%)	18.9	23.9	14.7	14.6	14.8

Source: CLSA Asia-Pacific Markets

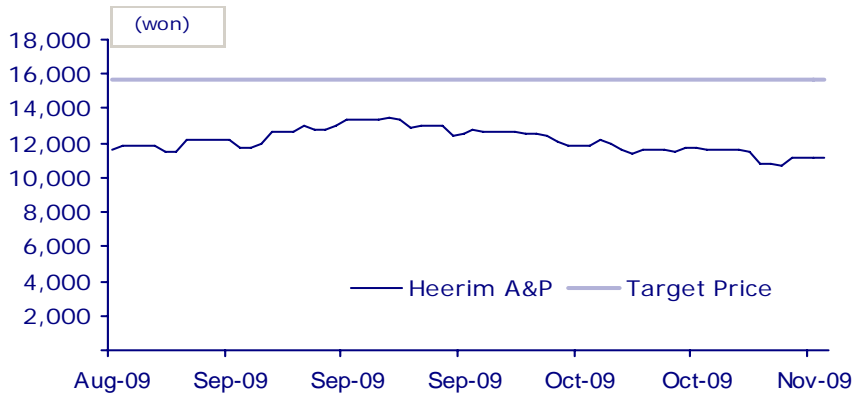
Recommendation history - Heerim Architects & Planners 037440 KQ

Date	Rec level	Closing price	Target
27 August 2009	BUY	11,700.00	15,700.00

Source: CLSA Asia-Pacific Markets

Figure 3

Target and share price history



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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