

Heerim

(037440.KQ)

Abundant order backlog to overcome recession

Buy (Initiate)

TP W12,500 (Initiate)

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Sector	Other service
Current price (02/19/09)	W8,000
KOSPI	1,107.10
KOSDAQ	384.67
Market cap (common)	\$73.33mn
Outstanding shares (common)	13.4mn
Par value	W500
120DA trading vol	281,350shrs
120DA share price	W7,715
52W high (02/19/08)	W10,200
Low (10/24/08)	W6,454
Dividend yield (2007)	6.25%
Foreign ownership	5.90%
Major shareholders	
YK Chung	26.1%
YH Lee	12.5%

Stock performance (%)			
	3M	6M	12M
Absolute	16.2	-7.7	-10.7
Relative	-13.2	16.5	31.1

Initiate with Buy and target price of W12,500

We initiate coverage on Heerim with a Buy rating and a target price of W12,500. Our target is based on RIM, assuming a market risk premium of 8.0%, beta of 0.7, and COE of 10.9%, and is equivalent to a 2009 P/E of 10.4x and a P/B of 2.8x, implying 55.0% upside from the Feb 19 closing price. Investment points are as follows: 1) high-margin overseas orders should drive top- and bottom-line growth; 2) stable domestic orders are expected despite the construction industry downturn; and 3) financials should remain stable backed by the company's debt-free management structure.

Overseas projects to boost margins

There are concerns over falling orders and worsening margins for overseas real estate projects amid the global downturn, but we believe negative impacts should be limited as: 1) public construction orders should rise on government efforts to overcome the economic crisis, offsetting the decline in private orders; and 2) the contraction of existing markets, including Dubai, should be offset by rising construction investment in Azerbaijan and Abu Dhabi. In addition, overseas orders are mainly placed by governments, and thus, there should be limited difficulty in recovering accounts receivable. As of end-2008, overseas order backlog stood at about W68.5bn, two times the company's total overseas sales in 2008.

Stable domestic order backlog

Despite concerns over declining orders and sales due to the construction industry downturn, orders are unlikely to fall sharply from the current level given the company's superb architectural design capability. In addition, as only a few architectural design companies dominate the market, Heerim is still able to selectively choose orders. Strong brand power thanks to the company's recognized track record in design, which includes buildings such as COEX, Incheon International Airport, KDB headquarters, and W-Hotel, allowed Heerim to secure new orders worth W204.4bn in 2008 (up 28.5% y-y), despite the construction industry recession.

YE-Dec	Sales (Wbn)	Chg (%)	OP (Wbn)	Pre-tax (Wbn)	NP (Wbn)	EPS (won)	Chg (%)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Debt/equity (%)	Net debt (Wbn)
2007	120	31.3	12	13	9	671	160.4	12.5	2.7	7.1	22.7	24.1	-10
2008E	157	30.9	17	17	12	906	35.1	8.8	2.2	5.1	24.1	26.5	-5
2009F	199	26.3	22	22	15	1,187	31.1	6.7	1.8	4.1	25.5	28.0	-5
2010F	212	6.8	23	23	16	1,267	6.7	6.3	1.5	3.6	23.1	25.7	-11

Source: Woori I&S Research Center estimates

- Woori I&S does not have a stake greater than or equal to 1% in Heerim as of the preparation date.
- Woori I&S has not provided this material to an institutional investor or other third party in advance. The Korean version of this material was distributed on February 19, 2009.
- The analyst and his/her spouse do not own any securities of Heerim as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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I. Investment points

Initiate coverage with Buy and target price of W12,500

We initiate coverage on Heerim with a Buy recommendation and a target price of W12,500. Key investment points are as follows: 1) increasing high-margin overseas orders should contribute to improving the company's top-line and margins; 2) Heerim should be able to secure stable domestic orders, despite the construction industry recession, as the top architectural design and supervision companies are expected to secure a growing portion of total orders; and 3) the company boasts stable financial stability (net cash positions).

Our target price of W12,500 is based on RIM, assuming a market risk premium of 8.0%, and a beta of 0.7, with a CoE of 10.9%, and is equivalent to a 2009 P/E of 10.4x and P/B of 2.8x, implying 55.0% upside from the Feb 19 closing price.

Increasing high-margin overseas orders to lead overall margin improvement

Given that overseas orders offer higher margins than domestic orders, we expect the increase in overseas orders to drive the company's margin improvement. In general, domestic construction projects set architectural design fees at about 3% of total construction costs. However, in overseas markets, architectural design fees can be as high as 5~7% of total costs. As such, overseas projects should offer a greater contribution to top-line expansion than domestic projects (assuming similar man-hours for both projects). In fact, overseas design fees, which accounted for less than 4% of total architectural design fees until 2006, contributed to 29.0% of total sales in 2008, allowing the company to record operating profit growth of 88.5%.

Overseas order decline due to global economic downturn to be limited

In our view, despite the global economic recession, any decline in overseas orders will be limited for the following reasons: 1) public construction orders should rise on government efforts to overcome the economic crisis, offsetting the contraction in private orders; and 2) the contraction in existing markets, including Dubai, should be offset by rising construction investments in Azerbaijan and Abu Dhabi. In fact, last year, the company landed a series of public project orders in Azerbaijan, Vietnam, and UAE, which boosted 2008 overseas orders 12.1% y-y to W65.7bn, despite the weak construction industry. Of note, overseas orders in 2007 (when the construction business was stronger than in 2008) stood at W58.6bn. Meanwhile, as of end-2008, overseas order backlog stood at about W68.5bn, two times the company's 2008 overseas sales.

Domestic architectural design/construction supervision orders to remain stable on market dominance

The company's 2009 order receipts should remain relatively unchanged y-y backed by its superior design capability. As the architectural design market is dominated by top-tier companies, Heerim was able to selectively take orders last year even amid the softening construction industry. Domestic sales are unlikely to grow steeply y-y in 2009, and a slight decline in order contracts is expected as the company plans to dispatch some of its architects to overseas projects. However, we expect the company to receive stable domestic orders in view of: 1) its strong brand power thanks to its design history, which includes buildings such as COEX, Incheon International Airport, KDB Headquarters; and 2) increased public orders (eg the 'Han River Renaissance Project') backed by stimulus packages, which are likely to offset declining private orders.

Free from traditional construction risks, ie, unsold units, as 95% of receivables are collected prior to construction

Architectural design and construction management and supervision businesses are generally free from the traditional risks facing the construction industry, ie, unsold units, as they receive 95% of accounts receivable before construction begins. As such, even if a project was to be suspended due to unforeseen circumstances, it would be unlikely to financially burden Heerim. In addition, as receivables are reflected in sales within two years of winning orders, the chances of orders being cancelled due to changing market conditions are limited.

**Financial stability
backed by debt-free,
net-cash position**

Heerim has maintained a debt-free position since 2001 with an average debt-to-equity ratio of around 20%. The company's net-cash position should continue going forward as the possibility of cash outflow due to extensive capex remains slim. While accounts receivable has increased with the company winning mainly longer-term large projects, it should experience little difficulty collecting accounts receivable as its clients are mainly governments or large constructors.

II. Valuation

Initiate coverage with Buy and target price of W12,500

**2009 and 2010 EPS
to grow 31.1% and
12.5%, respectively**

We initiate coverage on Heerim with a Buy rating and 12-month target price of W12,500 (par value of W500). Heerim specializes in architecture design and construction supervision. We expect strong top-line growth via growing overseas project orders, which typically offer higher margins than domestic projects. We estimate 2009 and 2010 EPS of W1,187 and W1,267, respectively, with P/Es of 6.7x and 6.3x, P/Bs of 1.8x and 1.5x, and EV/EBITDA of 4.1x and 3.6x.

55.0% upside

Our RIM-based target of W12,500 assumes a market risk premium of 8.0%, beta of 0.7, and COE of 10.9%, and offers 55.0% upside.

RIM valuation

(Units: Wbn, won)

	2008E	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Net Profit	12	15	16	19	23	29	25	27	29	31	34	37
Shareholder's equity	55	65	76	89	105	127	146	165	186	207	230	254
Forecast ROE (FROE)	24.1%	25.5%	23.1%	22.7%	23.6%	25.0%	18.3%	17.3%	16.6%	16.0%	15.5%	15.2%
Spread (FROE-COE)	13.2%	14.6%	12.2%	11.8%	12.7%	14.1%	7.4%	6.4%	5.7%	5.1%	4.6%	4.3%
Residual Income	7	9	9	10	12	16	10	10	10	10	10	10
Cost of Equity(COE)	10.9%											
Beta	0.7											
Market Risk Premium (Rm-Rf)	8.0%											
Risk Free Rate (Rf)	5.3%											
Beginning Shareholder's equity	46.1											
PV of Forecast Period RI	73.1											
PV of Continuing Value	30.8											
Equity Value(C+P)	149.9											
No. of Shares(Common, mn)	13.4											
		12m TP										
Fair Price(C)		12,399										
Current Price(C)		8,000										
Upside(-Downside)		55.0%										
Implied P/B(x)		2.8										
Implied P/E(x)		10.4										

Note: RIM (Residual Income Model) is a cash flow approach that yields a fair shareholder value (value of equity) by adding shareholders' equity and present value of residual income (meaning income excluding cost of equity).

Value of equity = shareholders' equity + sum of present value of future residual income

* Residual income (RI) = NP (t) - shareholders' equity (t-1) * cost of equity (t) = shareholders' equity (t-1) * (ROEt - COEt)

Woori I&S uses RIM as our primary valuation model as RIM is an objective model that minimizes subjectivity of valuation indicators while producing same results as DDM (dividend discount model) and DCF.

Market risk premium assessment guidelines

	Mega cap	Large cap	Mid cap	Small cap
Criteria	Market cap of W10tn or higher + credit rating of 'AAA' or higher	Market cap of W1~10tn + credit rating of 'A0' or higher	Market cap of W200bn-1tn + credit rating of 'BBB+' or higher	Market cap of less than W200bn + credit rating of 'BBB-' or higher
Risk premium	5.2%	6.0%	7.0%	8.0%

* Risk Free Rate = 5.3% (standardized)

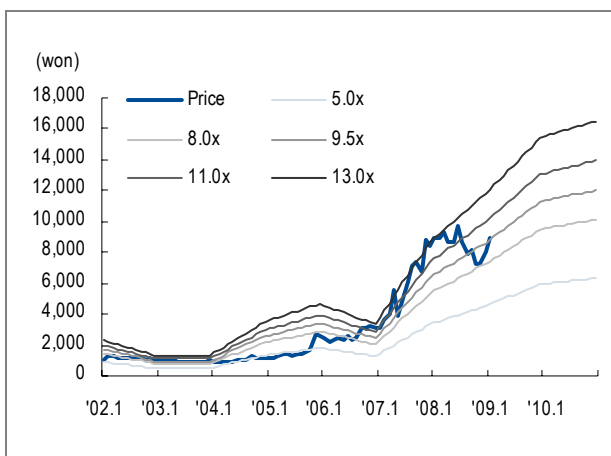
Attractive P/E valuations

Shares are currently trading at a 2009 P/E of 6.7x. Since 2007, shares have offered high valuation merit, trading at a P/E range of 7~13x. Of note, the company's P/E stood at 13x at end-2007 when its operating environment was less favorable than it is currently.

Stable share performance relative to construction sector

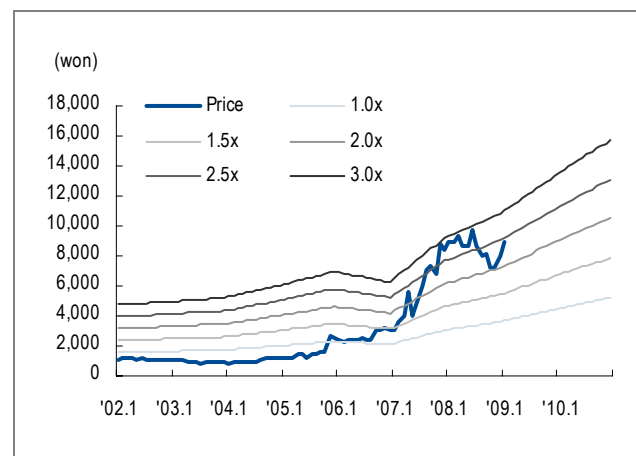
Reflecting the effect of the stock split in March 2008, we compared its adjusted share price with the construction sector index. While the sector index suffered sharp pullbacks, Heerim shares showed relatively stable movement thanks to the company's stable business model. As such, we expect the shares to remain stable despite the slowing construction industry.

P/E band



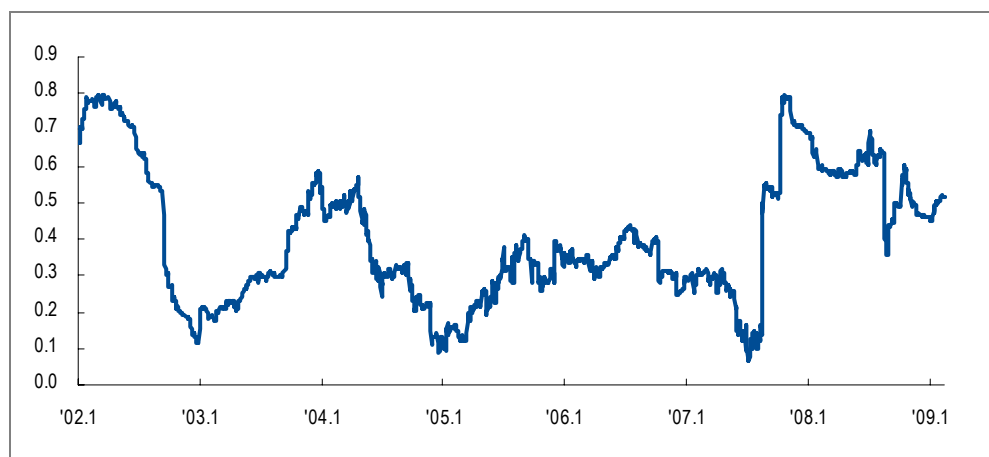
Source: Woori I&S Research Center

P/B band



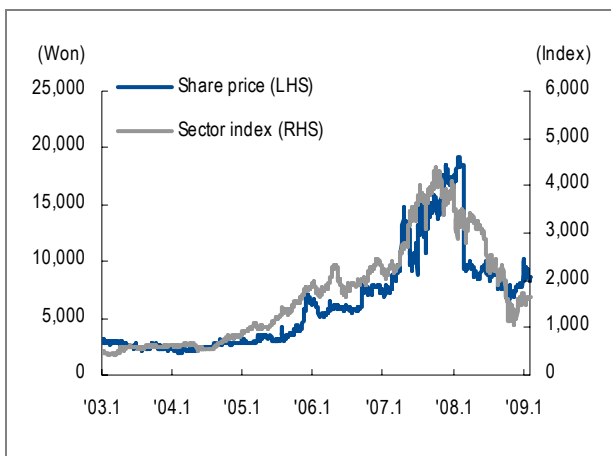
Source: Woori I&S Research Center

Beta movement



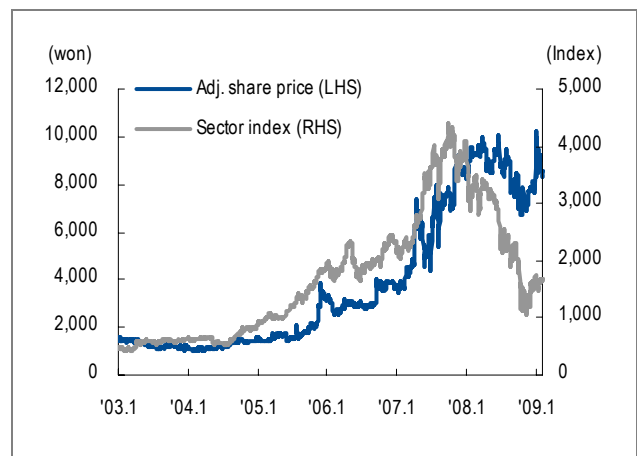
Source: Dataguide Pro

Share price vs sector index



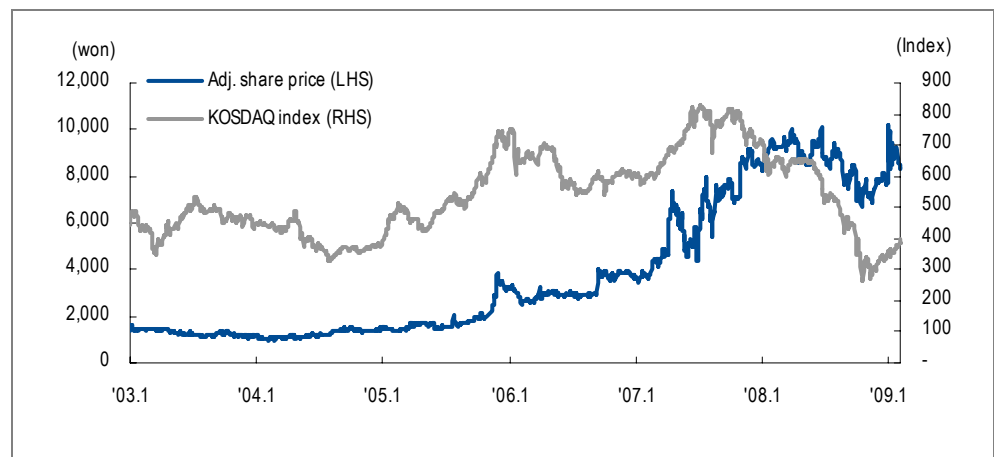
Source: Dataguide Pro

Adj share price vs sector index



Note: Share price adjusted, based on 2:1 stock split in Mar 2008
Source: Dataguide Pro

Adj share price vs Kosdaq



Source: Dataguide Pro

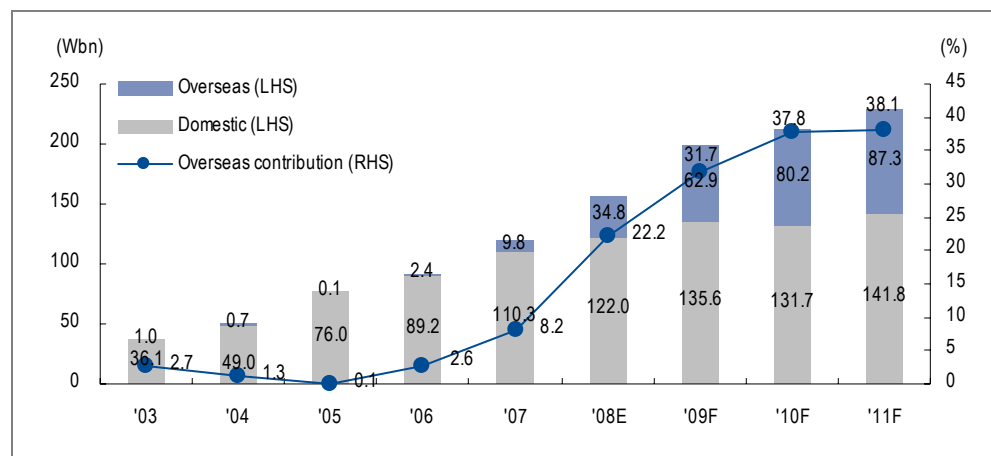
III. Strong operating profit growth momentum on increasing overseas sales

1. Earnings improvement momentum driven by increasing high-margin overseas orders

Focus on expansion of high-margin overseas orders

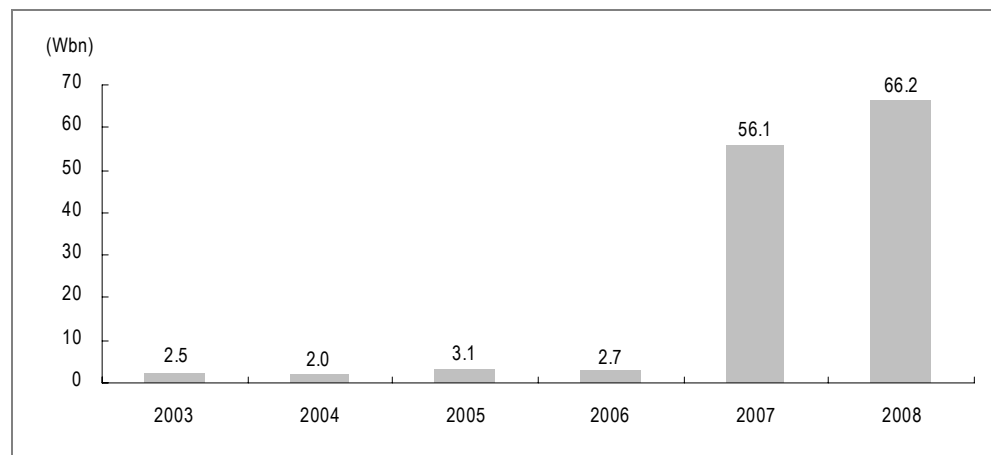
Given that overseas orders offer higher margins than domestic orders, we expect the increase in overseas orders to drive the company's margin improvement. In general, domestic construction projects set architectural design fees at about 3% of total construction costs. However, in overseas markets, architectural design fees can be as high as 5~7% of total costs. As such, overseas projects should offer a greater contribution to top-line expansion than domestic projects (assuming similar man-hours for both projects). In fact, overseas design fees, which accounted for less than 4% of total architectural design fees until 2006, contributed to 29.0% of total sales in 2008, allowing the company to record operating profit growth of 88.5% (operating profit margin rose from 8.0% in 2006 to 10.9% in 2008).

Heerim's sales breakdown (domestic/overseas sales) and overseas sales contribution



Source: Heerim, Woori I&S Research Center estimates

Heerim's new overseas orders by year



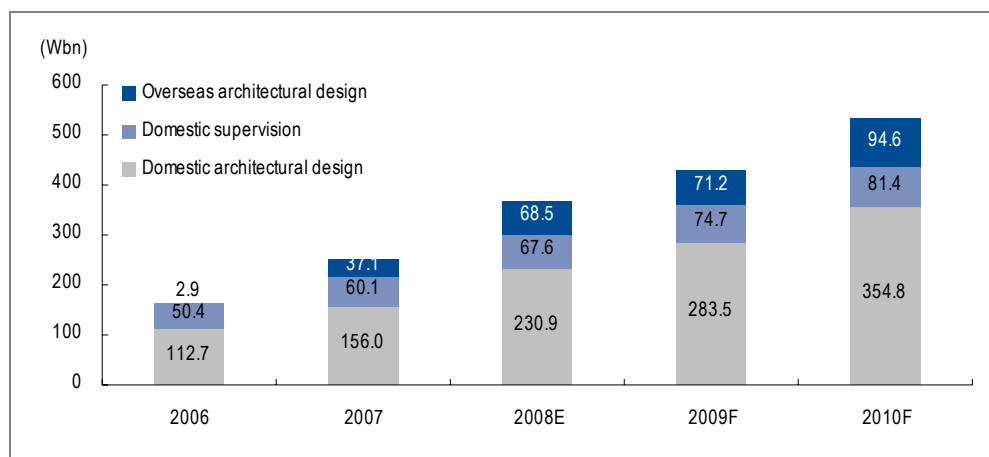
Source: Heerim, Woori I&S Research Center

2. Limited possibility of overseas orders declining due to global economic recession

Stable overseas order growth expected thanks to increasing public projects

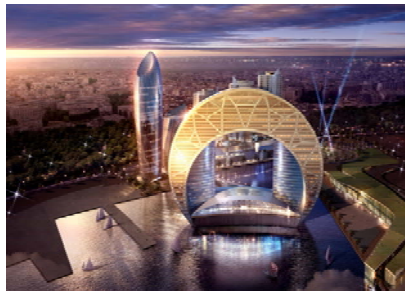
Heerim's overseas clients are mainly government agencies. And, we believe that the close relations the company has forged with foreign government agencies during the construction of public projects should help Heerim record stable overseas sales growth. Countries worldwide are expected to expand public projects in an effort to overcome the global economic crisis (eg the Korean government's 'Green New Deal' policy and 'Han River Renaissance Project'), and the subsequent rise in public construction orders should lead to additional overseas orders for the company. In fact, last year, Heerim landed a series of public project orders in Azerbaijan, Vietnam, and UAE, which boosted 2008 overseas orders 12.1% y-y to W65.7bn despite the weak construction industry conditions. Of note, overseas orders in 2007 (when the construction business was stronger than in 2008) stood at W58.6bn. In addition, as of end-2008, overseas order backlog stood at about W68.5bn, two times the company's 2008 overseas sales.

Heerim's annual order backlog forecast



Source: Heerim, Woori I&S Research Center estimates

Heerim's overseas projects



Caspian Plus – Hotel Crescent



Azerbaijan: SOCAR building



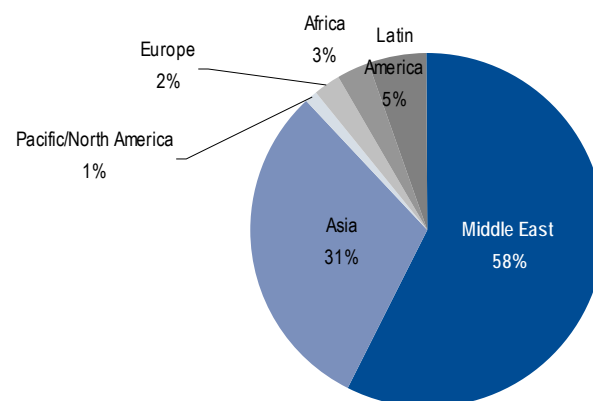
Vietnam: EVN building



Vietnam: Foreign ministry building

Source: Heerim

Domestic construction companies' overseas order breakdown by region in 2008



Source: Ministry of Land and Maritime Affairs, Woori I&S Research Center

Overseas Project List of Heerim

(unit: Wbn)

Year	Country	Project	Contract date	Amount	Note
'02	China	Xi'an Central Business District Masterplan	8 Jul	917	
Subtotal				917	
'03	China	Qingdao International City	24 May	225	
				764	
	China	Harbin Yaburi Ski Resort	8 Dec	906	
	China	Xi'an CBD Master Plan	23 Dec	430	
	Algeria	Golden Village Building	26 Dec	1,890	
Subtotal				3,515	
'05	China	Qingdao korean complex project	10 Mar	538	
	Vietnam	SAIDONG New town design	28 Jul	180	
	Vietnam	EVN Center for Operation Mngt. Information and technology	9 Nov	3,134	
Subtotal				3,851	
'06	Russia	Khabarovsk Master Plan	2 May	70	
	UAE	Dubai Sportscity Office Tower	30 May	1,436	
	Kazakhstan	Almaty Atakent Masterplan	13 Jul	150	
	Vietnam	Hanoi Tay Ho Tay Area Project	29일 Jul	262	
	China	Shanghai Jiading Masterplan	29 Sep	160	
Subtotal				2,078	
'07	Vietnam	Hanoi Five-star Hotel Complex	16 Feb	1,920	
	Yemen	Alnoor City of Light Design Project	16 Feb	2,351	
	UAE	Dubai B-Bay S-Tower Design & CS	23 Feb	1,800	
	China	Seotap district redevelopment	14 Mar	100	
	Cambodia	Phnom Penh Housing Development Project	12 Jul	3,280	
	Vietnam	Hanoi Me Tri Masterplan	14 Jul	740	
	Vietnam	Hanoi Landmark Tower Project	7 Aug	12,036	
	Djibouti	Djibouti master plan	26 Aug	1,130	
	Azerbaijan	Baku seven-star Hotel	27 Aug	15,494	
	Azerbaijan	New Management Office of SOCAR	12 Sep	7,249	
	Kazakhstan	Gogolya development design project	15 Sep	285	
	Ukraine	Kyiv Housing Development Design Project	17 Sep	651	
	Azerbaijan	Azerbaijan Crescent Place	25 Sep	8,612	
	Vietnam	Dalat Golf Village Project Masterplan	25 Oct	40	
	Cambodia	Phnom Penh North Newtown Masterplan	6 Nov	80	
	Russia	Sakhalin Office Building	6 Nov	2,792	
Subtotal				58,561	
'08	Syria	City of Al Maa Master Plan	21 Jan	516	
	Vietnam	The five-star Hotel Complex	31 Jan	13,309	
	China	Dalian STX Housing Masterplan	25 Feb	2,054	
	UAE	Dubai Majan Housing Project	2 Jun	9,900	
	USA	Design Service for LA Apartment Construction	16 Jun	4,863	
	Azerbaijan	Crescent City in Baku, Azerbaijan	28 Jul	3,064	
	Vietnam	Tay Ho Tay Development Project(CS)	12 Aug	4,070	
	UAE	City of Arabia Design & CS	8 Sep	5,898	
	UAE	Saadiyat Marina Housing Project	13 Oct	9,251	
	UAE	Dubai Waterfront project (CS)	4 Nov	2,720	
	Vietnam	Vietnam Ministry of Foreign Affairs(CS)	13 Nov	9,726	
	Azerbaijan	Qabala Resort Masterplan	16 Dec	338	
Subtotal				65,708	

Source: Heerim

IV. Domestic sales to remain stable despite construction industry downturn

1. Deepening oligopolization of domestic architectural designing/supervision market—positive for Heerim

Heerim's domestic sales to remain stable thanks to market oligopolization

While current construction industry conditions may trigger concerns over Heerim's future orders and sales, we expect the company to maintain its current sales level thanks to its superior design competency. In particular, thanks to deepening oligopolization in the domestic architectural design market, the company was able to selectively accept new orders in 2008 when the construction market downturn began in earnest. Despite the sluggish construction sector, the top eight design companies, including Heerim, Samoo, and Kunwon, have won the majority of new orders. Though domestic sales should slow y-y in 2009 and overseas orders should fall slightly as some of its architects will be preoccupied with outsourced projects, we expect the company orders to remain stable. Of note, Heerim won domestic new orders worth W204.4bn in 2008, up 28.5% y-y, and new orders have grown at a CAGR of 29.6% over the last five years.

Strong brand profile and ample experience

Heerim is a renowned architectural designing company, with a solid track record in the domestic market—COEX Mall, Incheon International Airport, Korea Central Post Building, KDB Main Building, and the W-Hotel. We believe its strong brand profile will be a key growth driver going forward. Of note, it boasted the second-largest sales market share in Korea in 2007, trailing Samoo, a Samsung Group subsidiary.

Major domestic projects by Heerim



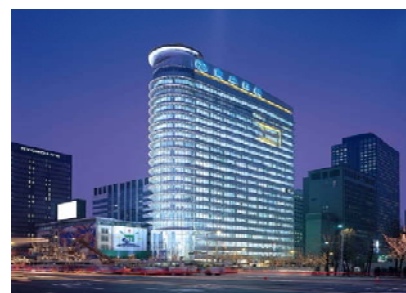
KDB Main Building



ASEM, Korea World Trade Center



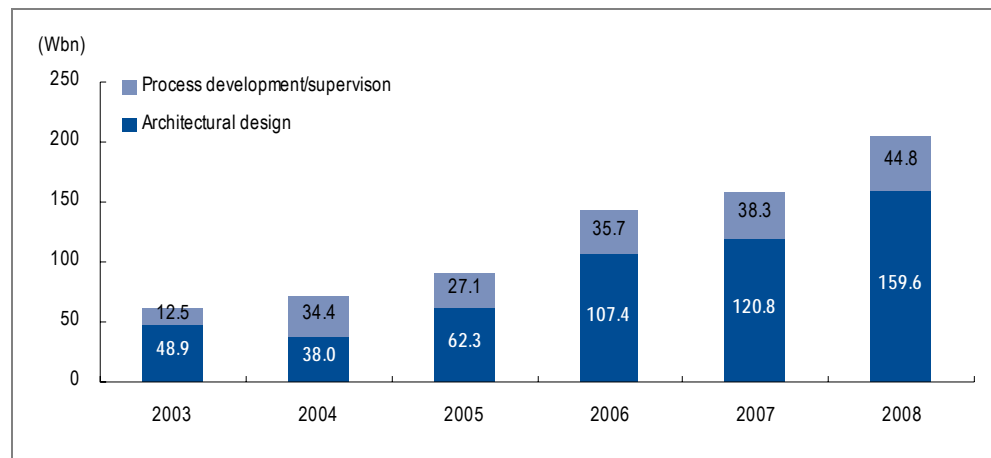
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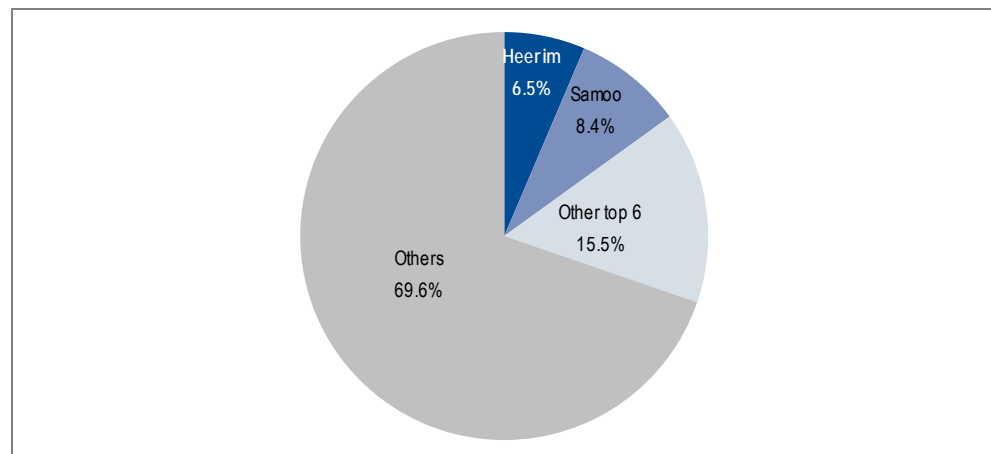
Source: Heerim

Domestic new orders



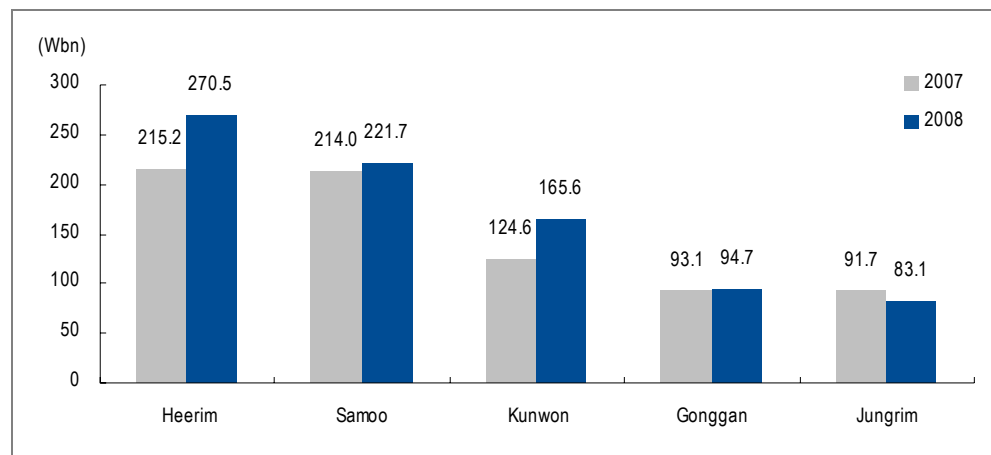
Source: Heerim, Woori I&S Research Center

2007 architectural designing market breakdown



Source: Heerim, Woori I&S Research Center

New orders for domestic top-5 players

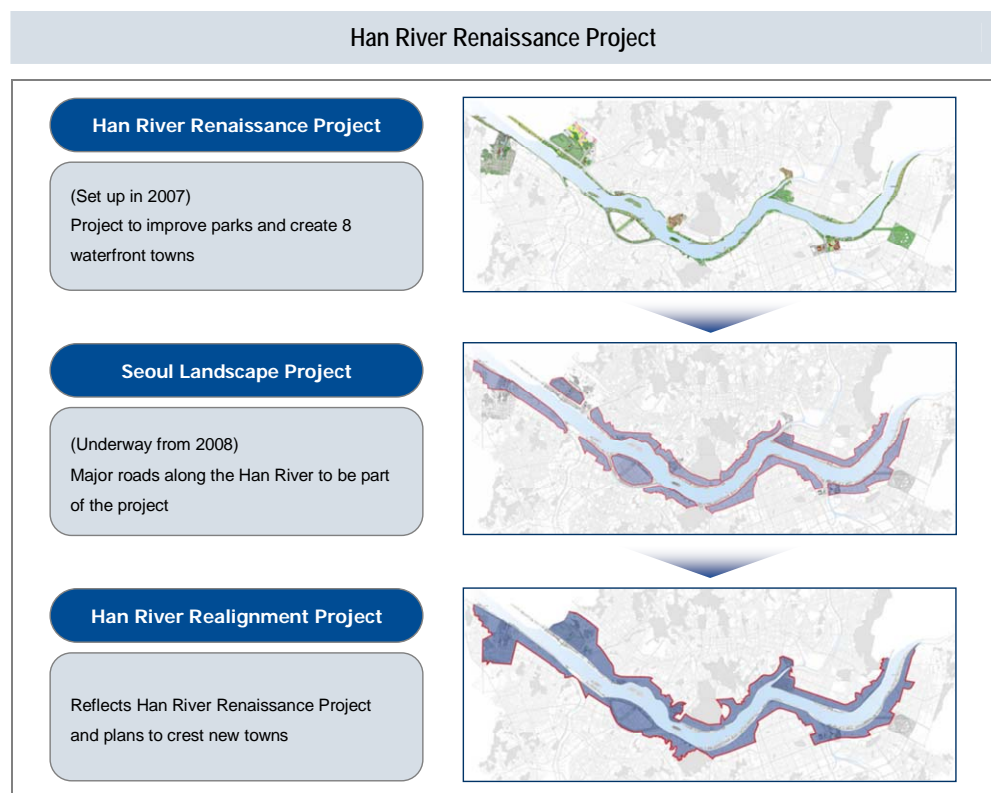


Source: Heerim

2. Beneficiary of massive government construction investments

Govt construction investment to benefit Heerim

The Seoul Metropolitan government recently unveiled the 'Han River Renaissance Project,' which is aimed to help revive the construction sector and the broader economy. We expect the project to help the company secure new orders. In addition, the recovery of the construction sector will benefit architectural designing companies. Heerim should win stable orders from the government in the near term and from the private sector in the long term, if the construction industry rebounds.



Source: Seoul Metropolitan Government

3. Free from traditional risks facing construction industry

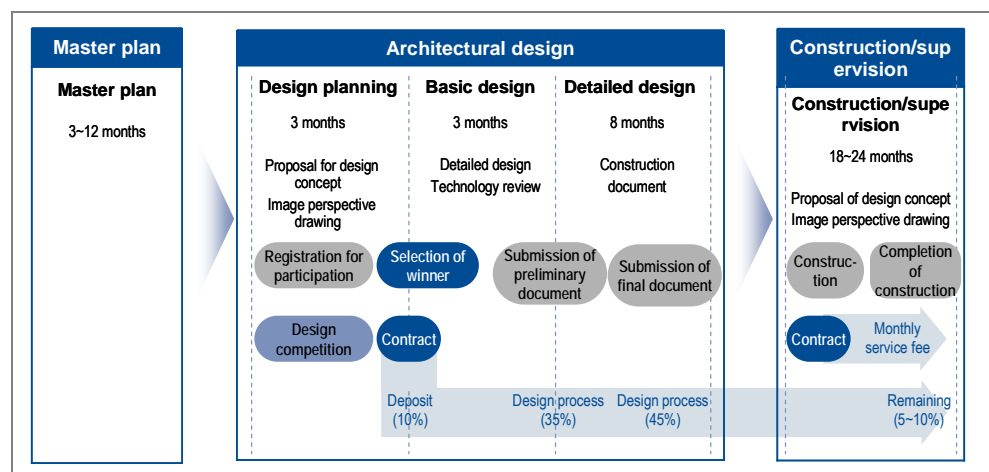
Free from trad const ind risks, ie, unsold units, as 95% of receivables are collected prior to construction

Architectural design and construction management and supervision businesses are generally free from the traditional risks facing the construction industry, ie, unsold units, as they receive 95% of accounts receivable before construction begins. As such, even if a project was to be suspended due to unforeseen circumstances, it would be unlikely to financially burden Heerim. In addition, as receivables are reflected in sales within two years of winning orders, the chances of orders being cancelled due to changing market conditions are limited.

Limited possibility of accounts receivable for supervision services becoming non-performing

Construction supervision sales are generated depending on the design process. If a project is suspended due to unsold units, construction will be postponed and the company will stop offering supervision services. However, the company can flexibly utilize its workforce as professionals who became idle due to the suspension of a project can be moved to other projects. In addition, the limited possibility of accounts receivable becoming non-performing should enhance investors' confidence in the company's stable profit growth potential and financial stability.

Collection process for accounts receivable related to architectural design and construction supervision services



Source: Heerim

V. Financial stability and shareholder-friendly dividend policy enhance corporate value

1. Financial stability backed by debt-free position

**Financial stability
backed by debt-free,
net-cash position**

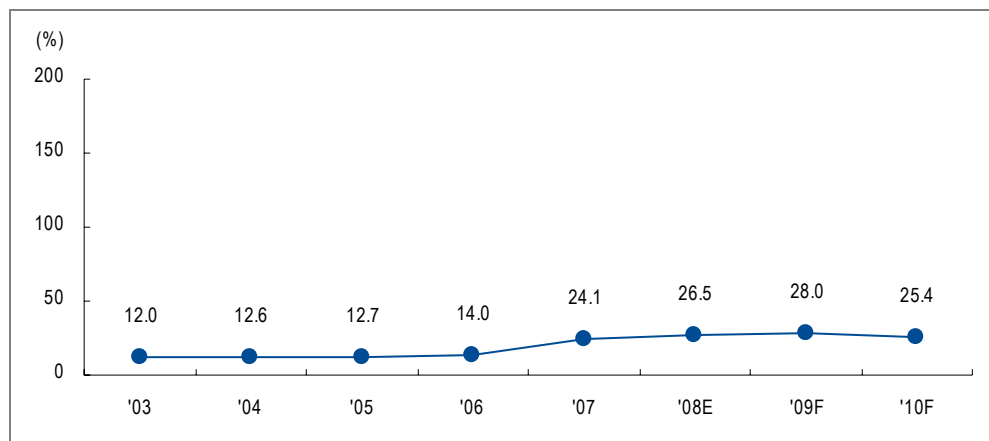
Heerim has maintained a debt-free position since 2001 with an average debt-to-equity ratio of around 20%. The company's net-cash position should continue going forward as the possibility of cash outflow due to extensive capex remains slim. While accounts receivable has increased with the company winning mainly longer-term large projects, it should experience little difficulty collecting accounts receivable as its clients are mainly governments or large constructors.

2. Shareholder value to increase on shareholder-friendly dividend policy

**Dividend payout to
remain at 35%-range**

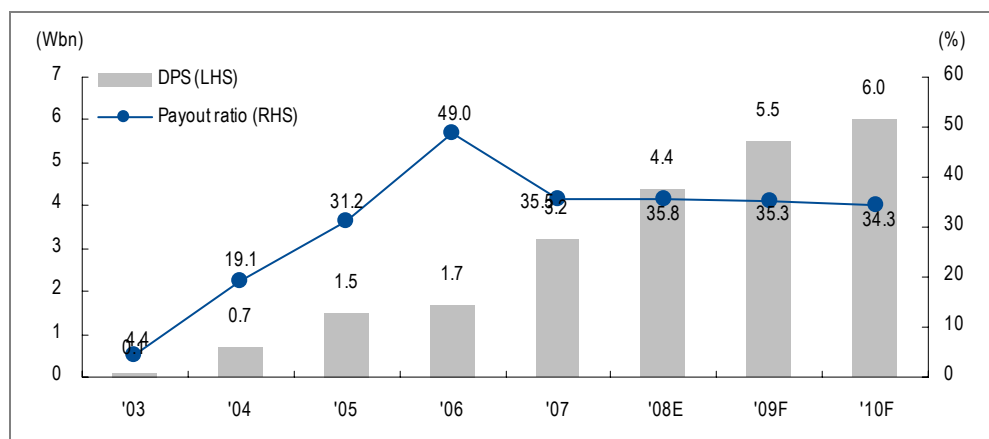
Heerim has steadily increased cash dividends and payouts since 2003, with the company expected to maintain a high dividend payout of about 35%. Management has also expressed its strong determination to stick to shareholder-friendly policies. Going forward, dividends should expand via profitability improvements. If a dividend payout ratio of around 35% is maintained, we estimate 2009 and 2010 dividend payouts of W5.5bn (W426/share) and W6bn (W465/share), respectively.

Debt/equity ratio



Source: Heerim, Woori I&S Research Center estimates

DPS and payout ratio



Source: Heerim, Woori I&S Research Center estimates

VI. Risks

Public orders to offset sluggish private construction investment

1. Business structure sensitive to construction cycle

While private construction investment should shrink due to the global economic downturn, the decline should be offset by increasing public projects. The government plans to increase construction investment to boost the economy via projects such as the ‘Green New Deal’ and ‘Han River Renaissance,’ which should boost Heerim’s order backlog in the near term. Over the long-term, as architectural design moves ahead of the construction industry, we expect growth momentum to be sustained through the recovery of private construction.

Competitive edge over peers on brand power and cumulative know-how in large scale projects

2. Possible margin contraction on low-price bidding by peers

While some investors are concerned over the possibility of margins contracting due to low-priced bidding by small and medium-sized architectural design companies, we believe margins are unlikely to shrink as the market leaders dominate the architectural design market backed by their brand power and cumulative expertise. Of note, orders tend to concentrate on the top eight firms, including Heerim, as construction projects grow in size and become more complicated. In addition, as architectural design costs represent only 3% of total project spending, there is limited room for price cuts by small-sized peers. Overall, small-sized peers are unlikely to offer cost reductions competitive enough to offset the brand power and cumulative know-how of Heerim.

[Appendix]

Business profile

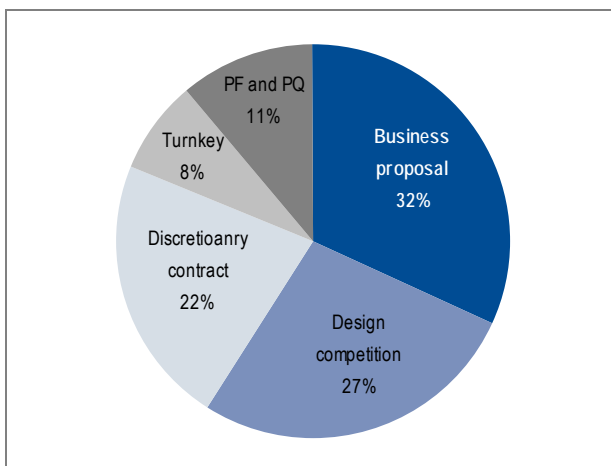
Heerim, established in November 1989 as an architectural design and supervision company, was listed on the Kosdaq on Feb 3 2000. While its business structure is sensitive to the construction industry, earnings volatility is limited as its business model involves lower risks than construction firms. The company received its international construction business license in 2000 and overseas sales took off from 2006, driving Heerim's overall earnings growth.

History

Date	Detail
Jan 1970	Founded as Heerim Architects
Jun 1985	Licensed and registered for total architectural design services
Dec 1989	Licensed and registered for construction supervision services
Apr 1996	Licensed and registered for total construction supervision services
Mar 1997	Acquired ISO 9001 certification (1 st in the industry)
Feb 2000	Listed in Kosdaq
May 2000	Licensed and registered for international construction business (architect, engineering)
Apr 2007	Acquired ISO 14001 Certification
Jul 2008	Relisted (par value revision)

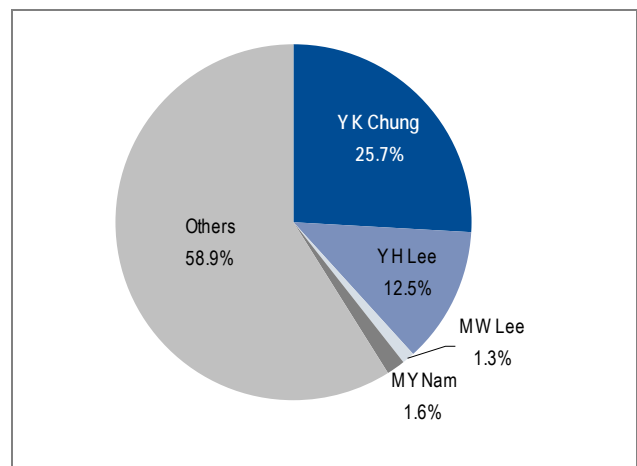
Source: Heerim

Order breakdown (2008)



Source: Heerim

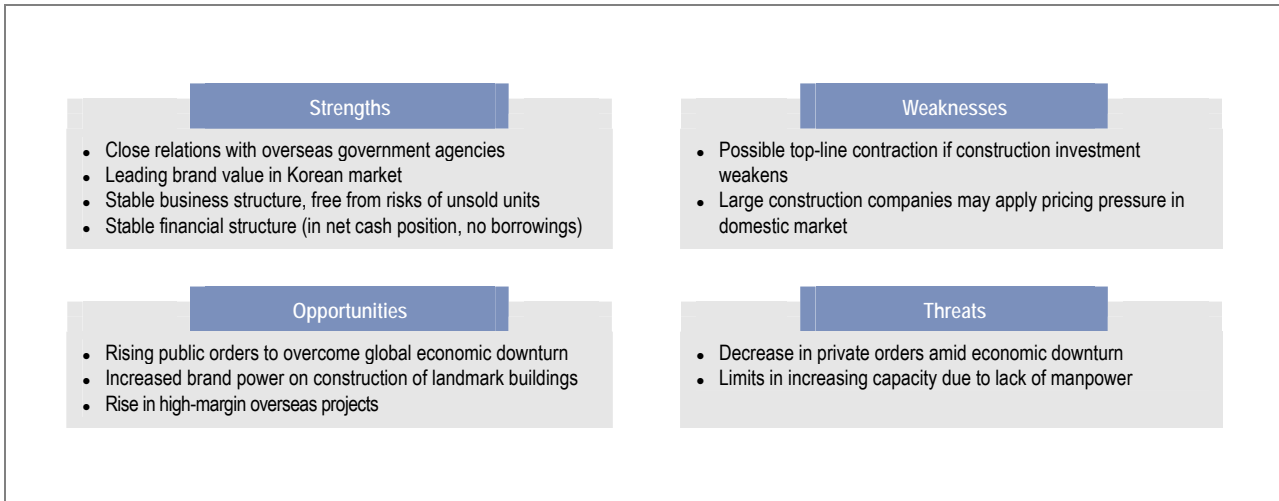
Shareholder breakdown



Source: Heerim

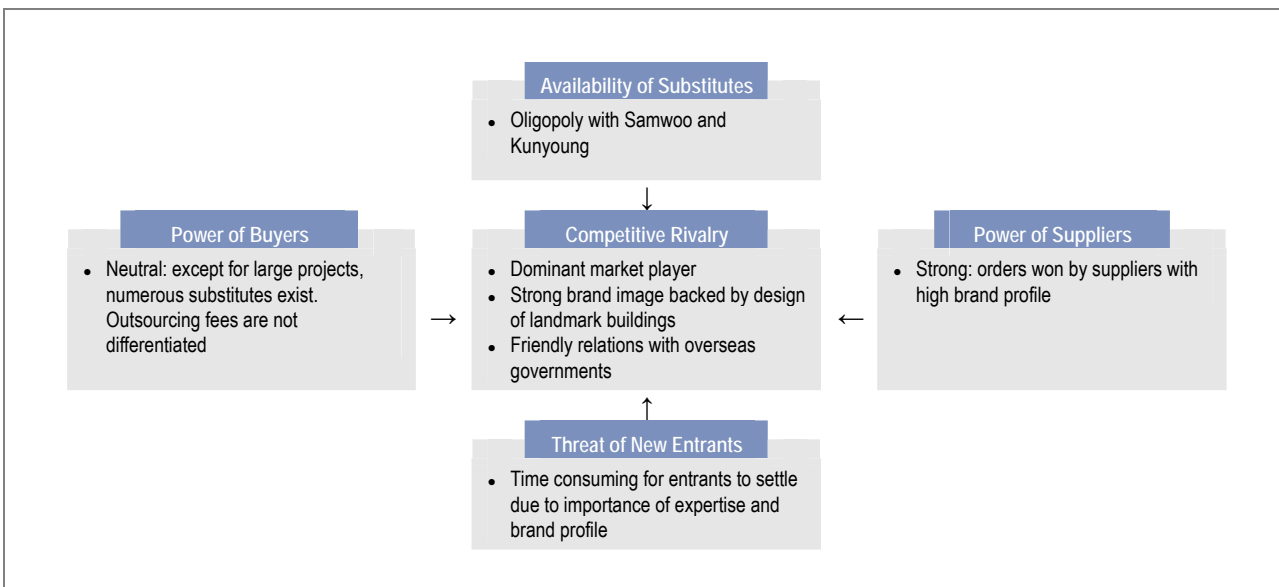
SWOT & 5 Forces

SWOT Analysis



Source: Woori I&S Research Center

5 Forces Analysis



Source: Woori I&S Research Center

INCOME STATEMENT

(Wbn)	2005/12A	2006/12A	2007/12A	2008/12E	2009/12F	2010/12F
US GAAP						
Sales	76.0	91.5	120.1	157.2	198.5	212.0
Growth (%)	53.3	20.3	31.3	30.9	26.3	6.8
Manufactured goods portion (%)	0.0	0.0	0.0	0.0	0.0	0.0
Export ratio (%)	0.0	0.0	0.0	19.6	31.7	37.9
Cost of sales (A)	63.9	75.9	96.2	126.2	161.9	173.5
Cost of goods sold	-1.0	-1.2	-1.5	-1.8	-1.8	-1.8
Gross profit (A)	12.1	15.5	24.0	31.0	36.6	38.5
Gross margin (%)	15.9	17.0	20.0	19.7	18.5	18.1
Growth (%)	37.0	28.5	54.5	29.4	18.1	5.0
SG&A (A)	5.0	9.4	9.6	11.6	12.6	12.9
EBITDA	7.1	6.1	14.3	19.4	24.1	25.5
EBITDA margin (%)	9.4	6.7	11.9	12.3	12.1	12.1
Growth (%)	45.9	-13.9	133.8	35.1	24.2	6.2
Depr & amort	-1.0	-1.4	-1.9	-2.2	-2.3	-2.4
Depreciation	-1.0	-1.2	-1.7	-2.0	-2.0	-2.0
Amortization	0.0	-0.1	-0.2	-0.2	-0.3	-0.3
EBIT	6.1	4.7	12.4	17.1	21.8	23.2
EBIT margin (%)	8.0	5.2	10.3	10.9	11.0	10.9
Growth (%)	51.4	-22.1	162.0	38.0	27.0	6.4
Net interest inc/ (exp)	0.1	0.2	0.2	0.3	0.2	0.3
Interest income	0.1	0.2	0.2	0.3	0.2	0.3
Interest expense	0.0	0.0	0.0	0.0	0.0	0.0
Other Non-operating Income	-0.6	-0.8	0.3	0.0	0.0	0.0
Net FC gains/ (losses)	0.0	0.0	0.0	0.0	0.0	0.0
Associates	-0.4	-0.3	0.0	0.0	0.0	0.0
Net Asset disp gains/ (loss)	-0.1	0.0	0.1	0.0	0.0	0.0
Others	-0.1	-0.5	0.1	0.0	0.0	0.0
Net Profit before tax	5.6	4.2	12.9	17.4	22.0	23.4
Tax	0.8	0.7	3.9	5.3	6.6	7.1
Net profit	4.8	3.5	9.0	12.1	15.3	16.4
Net margin (%)	6.3	3.8	7.5	7.7	7.7	7.7
Growth (%)	32.8	-28.2	160.4	35.1	26.2	6.7
Adjusted Net Profit	5.3	3.7	8.9	12.1	15.3	16.4
Korean GAAP						
Sales	76.0	91.5	120.1	157.2	198.5	212.0
Cost of sales (B)	65.0	77.2	97.7	128.0	163.7	175.3
Gross profit (B)	11.1	14.3	22.4	29.2	34.8	36.6
Gross margin (%)	14.5	15.6	18.7	18.6	17.5	17.3
Growth (%)	38.7	29.3	57.1	30.1	19.3	5.2
SG&A (B)	5.0	9.5	10.0	12.1	13.1	13.5
Operating profit	6.1	4.7	12.4	17.1	21.8	23.2
OP margin (%)	8.0	5.2	10.3	10.9	11.0	10.9
Growth (%)	51.4	-22.1	162.0	38.0	27.0	6.4
Non-operating profit	0.3	1.0	0.6	0.3	0.2	0.3
Non-operating expense	0.8	1.6	0.1	0.0	0.0	0.0
Pre-tax Profit from Continuing Operations	5.6	4.2	12.9	17.4	22.0	23.4
Pre-tax Profit	5.6	4.2	12.9	17.4	22.0	23.4
Tax	0.8	0.7	3.9	5.3	6.6	7.1
Profit from Continuing Operations	4.8	3.5	9.0	12.1	15.3	16.4
Profit from Discontinuing Operations	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	4.8	3.5	9.0	12.1	15.3	16.4
Net profit (excl. associates)	5.2	3.8	9.0	12.1	15.3	16.4
Net profit (excl. pref. dividend)	4.8	3.5	9.0	12.1	15.3	16.4
Total Cash dividends	1.5	1.7	3.2	4.4	5.5	6.2

BALANCE SHEET

(Wbn)	2005/12A	2006/12A	2007/12A	2008/12E	2009/12F	2010/12F
Cash & St. Financial Goods	2.0	3.3	9.1	3.2	2.3	7.7
Marketable securities	0.9	1.0	1.0	1.5	2.3	3.4
Accounts receivable	10.1	10.0	19.5	31.2	39.4	42.1
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	18.8	17.1	35.1	43.1	53.0	62.9
Growth (%)	7.1	-9.2	105.0	23.0	22.9	18.6
Current asset turnover (X)	4.2	5.1	4.6	4.0	4.1	3.7
Tangible Assets	10.9	8.3	9.1	9.1	9.1	9.2
CAPEX	4.1	1.8	2.5	2.0	2.0	2.1
Disposal of tangible asset	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	1.0	1.2	1.7	2.0	2.0	2.0
Investment assets	3.4	4.0	4.2	5.8	7.6	8.9
Intangible assets	0.0	5.1	4.9	6.4	8.1	8.6
Non-current assets	16.2	20.7	22.1	26.2	30.8	33.0
Growth (%)	26.1	27.8	6.9	18.4	17.7	7.2
Non-liquid asset turnover(x)	5.2	5.0	5.6	6.5	7.0	6.6
Total Assets	35.0	37.8	57.2	69.3	83.8	95.9
Growth (%)	15.1	7.9	51.3	21.2	20.9	14.4
Total asset turnover (X)	2.3	2.5	2.5	2.5	2.6	2.4
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Current portion of LT debt	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Payable	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	3.1	3.7	9.3	12.1	15.3	16.4
Total current Liabilities	3.1	3.7	9.3	12.1	15.3	16.4
Growth (%)	74.2	17.7	152.2	30.9	26.3	6.8
Current liability turnover (X)	30.9	26.9	18.6	14.7	14.5	13.4
Long-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Debentures	0.0	0.0	0.0	0.0	0.0	0.0
Long-term allowance	0.0	1.0	1.6	2.1	2.6	2.8
Other non-current liabilities	0.0	0.0	0.2	0.3	0.4	0.4
Financing lease	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	0.8	1.0	1.8	2.4	3.0	3.2
Growth (%)	-49.9	17.5	92.9	30.9	26.3	6.8
Non-current asset turnover(x)	62.7	104.0	86.3	74.3	73.2	67.7
Total Liabilities	3.9	4.6	11.1	14.5	18.3	19.6
Growth (%)	15.4	17.7	140.0	30.9	26.3	6.8
Total liability turnover (X)	20.7	21.4	15.3	12.3	12.1	11.2
Paid-in Capital	5.5	5.5	6.5	6.5	6.5	6.5
Capital surplus	3.0	3.0	6.4	6.4	6.4	6.4
Exceed in paid-in capital	3.0	3.0	2.0	2.0	2.0	2.0
Assets revaluation surplus	0.0	0.0	0.0	0.0	0.0	0.0
Capital adjustments	-1.5	-1.5	-0.2	-0.2	-0.2	-0.2
Treasury stock	-1.5	-1.5	-0.2	-0.2	-0.2	-0.2
Other accumulated earnings and comprehensive income	0.2	0.3	0.2	0.0	0.0	0.0
Retained earnings	23.9	25.9	33.2	42.2	52.9	63.7
Total Equity	31.1	33.1	46.1	54.8	65.5	76.3
Growth (%)	15.0	6.6	39.0	18.9	19.5	16.5
Shareholder's equity turnover (X)	2.6	2.8	3.0	3.1	3.3	3.0
Capital employed	31.9	34.1	47.9	57.2	68.5	79.5

CASH FLOW

(Wbn)	2005/12A	2006/12A	2007/12A	2008/12E	2009/12F	2010/12F
Operating Cash Flow	3.8	7.3	7.1	3.2	10.0	16.3
Net profit	4.8	3.5	9.0	12.1	15.3	16.4
Non cash cost (-income)	1.6	6.1	3.0	2.7	2.8	2.6
+ Depr.	1.0	1.2	1.7	2.0	2.0	2.0
+ Amor.	0.0	0.1	0.2	0.2	0.3	0.3
+ Provision for severance	0.0	1.0	0.8	0.5	0.5	0.2
+ Associates' loss (-profits)	0.4	0.3	0.0	0.0	0.0	0.0
+ Loss on FC Translation (-profits)	0.0	0.0	0.0	0.0	0.0	0.0
+ Loss (-gain) on Non-current asset disp	0.1	0.0	-0.1	0.0	0.0	0.0
Gross Cash Flow	6.5	9.6	11.9	14.9	18.2	18.9
- Incr (+dec) in working capital	-2.7	-2.3	-4.9	-11.7	-8.2	-2.7
- Inc (+dec) in acct receivable	-3.2	-1.5	-9.6	-11.7	-8.2	-2.7
- Inc (+dec) in inventory	0.0	0.0	0.0	0.0	0.0	0.0
+ Inc (-dec) in acct payable	0.0	0.0	0.0	0.0	0.0	0.0
+/- Other working capital	0.5	-0.8	4.7	0.0	0.0	0.0
Investing Cash Flow	-8.4	-5.5	-5.6	-4.9	-7.4	-5.4
+ Disp (-inc) of ST securities	0.0	0.0	0.0	-0.5	-0.8	-1.1
+ Disp (-inc) of other quick assets	-8.0	-1.7	-2.4	-1.7	-1.9	-0.6
+ Disp (-inc) of investment assets	0.1	-0.2	0.1	-1.2	-1.0	-0.9
+ Disp of tangible assets	0.0	0.0	0.0	0.0	0.0	0.0
- CAPEX	-4.1	-1.8	-2.5	-2.0	-2.0	-2.1
+ Disp (-inc) of intangible assets	0.0	0.0	0.0	-1.5	-1.7	-0.5
Free Cash Flow	-0.3	5.5	4.6	1.2	8.0	14.1
Net Cash Flow	-4.7	1.8	1.4	-1.7	2.6	10.9
Financing Cash Flow	-0.3	-1.7	4.2	-3.2	-4.4	-5.5
+ Inc (-dec) in ST borrowings	0.0	0.0	0.0	0.0	0.0	0.0
+ Inc (-dec) in CPLTD	0.0	0.0	0.0	0.0	0.0	0.0
+ Inc (-dec) in debentures	0.0	0.0	0.0	0.0	0.0	0.0
+ Inc (-dec) in LT borrowings	0.0	0.0	0.0	0.0	0.0	0.0
+ Inc (-dec) in paid-in capital and capital surplus	0.0	0.0	5.7	0.0	0.0	0.0
- Dividends	-0.7	-1.5	-1.7	-3.2	-4.4	-5.5
Increase in Cash & St. Financial Goods	-4.9	0.1	5.7	-4.9	-1.8	5.4
Cash& st. financial goods at the beginning	7.3	2.0	3.3	9.1	4.1	2.4
Cash& st. financial goods at the end	2.0	3.3	9.1	4.1	2.4	7.7

VALUATION (I)

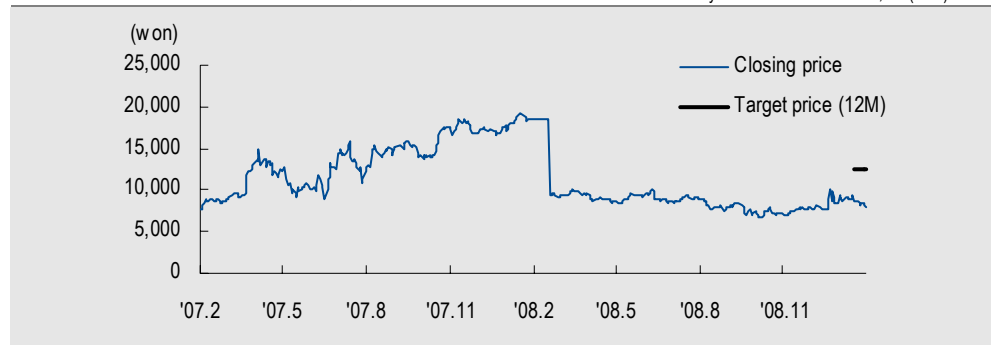
(Wbn)	2005/12A	2006/12A	2007/12A	2008/12E	2009/12F	2010/12F
Residual Income Model						
Spread (FROE-COE) (%)	6.4	0.2	11.8	13.2	14.6	12.2
Residual income	1.9	0.1	4.7	6.7	8.8	8.6
12M Rim-based target price (Won)	12,399.4					
Equity Yield-cost Spread (%)						
Recurring ROE	21.3	15.5	31.8	34.5	36.5	33.1
Recurring ROE - COE	11.1	4.9	21.0	23.6	26.5	22.8
Equity yield - COE	3.9	-2.1	-2.9	0.5	4.8	5.5
Economic Value Added						
Invested capital	28.4	29.2	37.1	51.4	62.6	67.2
Operating non-current assets	14.7	19.0	20.4	23.6	27.2	28.5
Net working capital	13.7	10.2	16.7	27.7	35.4	38.8
NOPAT	5.3	3.9	8.7	12.0	15.2	16.2
EBIT	6.1	4.7	12.4	17.1	21.8	23.2
(Taxes)	0.8	0.8	3.8	5.2	6.6	7.0
ROIC (%)	21.9	13.6	26.2	27.0	26.7	24.9
ROIC - WACC (%)	12.9	4.3	16.6	17.3	17.7	15.8
EVA	3.7	1.3	6.2	8.9	11.1	10.6
Discounted Cash Flow						
EBIT	6.1	4.7	12.4	17.1	21.8	23.2
+ Depr & amort	1.0	1.4	1.9	2.2	2.3	2.4
- Taxes	0.8	0.8	3.8	5.2	6.6	7.0
- CAPEX	4.1	1.8	2.5	2.0	2.0	2.1
- Inc (+ dec) in working capital	5.2	-3.6	6.5	11.0	7.6	3.4
Free cash flow for DCF valuation	-3.0	7.1	1.6	1.2	7.8	13.0
Weighted Average Cost of Capital (%)						
Cost of debt (tax adjusted)	4.1	4.3	4.0	4.9	4.6	4.2
Average cost of debt*	4.7	5.2	5.7	7.0	6.6	6.0
Adjustment (tax, CB, BW, etc)	0.6	0.9	1.7	2.1	2.0	1.8
Cost of equity (COE)	10.1	10.6	10.9	10.9	10.0	10.3
Risk free rate	4.5	5.0	5.3	5.3	4.4	4.7
Equity risk premium	5.6	5.6	5.6	5.6	5.6	5.6
WACC	9.0	9.3	9.5	9.7	9.0	9.1
Change (%p)	0.2	0.4	0.2	0.2	-0.8	0.2
Enterprise Value						
+ Market cap	34.2	40.9	112.3	103.0	103.2	103.2
+ Net debt (-cash)	-2.9	-4.3	-10.1	-4.8	-4.6	-11.1
Enterprise Value	31.3	36.6	102.2	98.2	98.7	92.1
- Investment asset	3.4	4.0	4.2	5.8	7.6	8.9
+ Financing lease	0.0	0.0	0.0	0.0	0.0	0.0
EV (adjusted)	27.9	32.5	98.0	92.5	91.0	83.2
EV/ EBITDA (X)	4.4	6.0	7.1	5.1	4.1	3.6
EV/ EBIT (X)	5.2	7.7	8.2	5.7	4.5	4.0
Adjusted EV/ EBITDA (X)	3.9	5.3	6.8	4.8	3.8	3.3
Adjusted EV/ EBIT (X)	4.6	6.9	7.9	5.4	4.2	3.6
EBITPS (FD) (W)	453.6	353.4	926.0	1,278.0	1,686.7	1,794.4
EBITDAPS (FD) (W)	531.1	457.3	1,069.2	1,444.7	1,864.4	1,979.7

VALUATION (II)

	2005/12A	2006/12A	2007/12A	2008/12E	2009/12F	2010/12F
PER, PCR & PBR						
Price/ earning (FD) (X)	7.1	11.9	12.5	8.8	6.7	6.3
Fully diluted EPS (W)	358.6	257.6	670.7	905.9	1,187.4	1,267.1
Adjusted PER (X)	6.5	11.0	12.6	8.8	6.7	6.3
Adjusted EPS (FD) (W)	393.2	277.7	663.7	905.9	1,187.4	1,267.1
Price/ gross cash flow (X)	5.3	4.3	9.4	7.2	5.7	5.5
CFPS (W)	481.3	714.8	891.0	1,109.1	1,407.6	1,466.2
Price/ Book Value (X)	1.1	1.5	2.7	2.2	1.8	1.5
BVPS (W)	2,317.4	2,091.5	3,070.8	3,607.6	4,447.1	5,243.9
PSR & PGR						
Price/ Sales (X)	0.5	0.4	0.9	0.7	0.5	0.5
Sales PS (W)	5,669.2	6,821.2	8,959.2	11,724.8	15,384.0	16,424.2
PER/ EPS growth (X)	0.2	0.2	0.5	0.5	0.5	0.3
PER/ EBITPS growth (X)	0.2	0.2	0.5	0.5	0.5	0.3
PER/ EBITDAPS growth (X)	0.2	0.2	0.5	0.6	0.5	0.3
EPS CAGR (3-Yr, FD) (%)	36.2	66.4	23.6	17.0	14.2	21.0
EBITPS CAGR (3-Yr, FD) (%)	41.2	68.4	24.7	16.9	13.7	20.5
EBITDAPS CAGR (3-Yr, FD) (%)	39.6	59.8	22.8	15.3	12.3	18.4
Profitability & ROE Breakdown						
Return On Investment (%)						
Return on asset (ROA) (%)	14.7	9.5	18.9	19.2	20.0	18.2
Return on invested capital (ROIC) (%)	21.9	13.6	26.2	27.0	26.7	24.9
EBITDA/ equity (%)	22.9	18.5	31.1	35.4	36.8	33.5
EBITDA/ asset (%)	20.3	16.2	25.1	28.0	28.7	26.6
ROE Breakdown						
Return on equity (ROE) (%)	16.6	10.8	22.7	24.1	25.5	23.1
NP/ Sales (%)	6.3	3.8	7.5	7.7	7.7	7.7
Sales/ Asset (X)	2.3	2.5	2.5	2.5	2.6	2.4
Asset/ Equity (Avg, %)	112.6	113.3	119.9	125.4	127.3	126.8
Stability & Turnover						
LT Debt Ratios (%)						
Net debt (cash)/ equity (%)	-9.2	-12.9	-21.9	-8.7	-7.0	-14.6
Debt/ equity (%)	12.6	14.0	24.1	26.5	28.0	25.7
Net interest exp/ sales (%)	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1
Interest coverage (X)	-61.4	-21.2	-63.5	-63.5	-113.6	-84.0
Short Term Solvency Ratios (%)						
Current Ratio (%)	603.2	465.3	378.2	355.4	345.9	384.4
Quick Ratio (%)	603.2	465.3	378.2	355.4	345.9	384.4
Cash Ratio (%)	27.6	88.5	67.5	15.1	2.9	28.2
Asset Utilization Ratios (X)						
Inventory turnover (X)	0.0	0.0	0.0	0.0	0.0	0.0
Receivables turnover (X)	8.9	9.1	8.1	6.2	5.6	5.2
Net working capital turnover (X)	6.8	7.7	8.9	7.1	6.3	5.7
Dividend						
Dividend Yield (%)	11.7	13.1	6.0	4.3	5.4	6.0
Cash dividends (Wbn)	1.5	1.7	3.2	4.4	5.5	6.2
Cash DPS (W)	300.0	400.0	500.0	340.0	430.0	480.0
Price Share Data						
Total shares (mn)	13.4	13.4	13.4	13.4	12.9	12.9
Common Shares (mn)	13.4	13.4	13.4	13.4	12.9	12.9
Preferred Shares (mn)	0.0	0.0	0.0	0.0	0.0	0.0
Wgt. Avg. shrs (C) (mn)	13.4	13.4	13.4	13.4	12.9	12.9
Wgt. fully diluted shrs (C) (mn)	13.4	13.4	13.4	13.4	12.9	12.9
Par value (W)	1,000.0	1,000.0	1,000.0	500.0	500.0	500.0

Rating and Target Price Update

Company	Code	Date	Rating	Target Price
Heerim	037440.KQ	2009.02.19	Buy	W12,500(12M)



WOORI Investment & Securities Stock Ratings

1. Period: Uniform 12-month
2. Rating System: Based on a stock's absolute return from the date of publication,
 - Strong Buy: high conviction Buy rated stocks
 - Buy: greater than +15%
 - Hold: 0% and +15%
 - Reduce: less than 0%

Disclosures

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