Equity Research

Spot Report
Industry: Shipbuilding
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SAMSUNG SECURITIES

Shipbuilding

2010 outlook: Post-boom pain inevitable

Reiterate:

NEUTRAL

BUY

Hyundai Heavy Industries
(M: 009540)
Samsung Heavy Industries
(M: 010140)
Hanjin Heavy Industries & Construction
(M: 097230)

HOLD

Hyundai Mipo Dockyard
(M: 010620)
Daewoo Shipbuilding & Marine Engineering
(M: 042660)

- **Pain inevitable in wake of boom:** During the shipbuilding industry boom over 2003-2007, vessel prices were driven up by rising demand (to new heights) and freight rates, while the higher collateral value of vessels drew generous lending from financial institutions. However, the boom has been unwinding, sending negative repercussions across related industries, forcing financial institutions to write down the collateral values of vessels, ship owners to write down asset values if vessel values prove to be in for permanent impairment, and shipbuilders that recklessly expanded facilities using advance vessel payments to suffer liquidity problems. Although no market participant will be able to escape pain in the near term, the extent of such pain should vary depending on financial health and competitiveness.
- **Containerships—Freight growth in 2003-2007 fueled by overconsumption:** Containership freight volume is closely affected by US GDP growth. Given that real GDP growth of 2.8% pa over 2003~2007 halves to 1.2% when adjusted for overconsumption, the massive containership orders during the boom years seem to have been based on overly optimistic assumptions for freight volume growth. We expect such growth to stay below 10%—even after normalization—as long as there is no resurgence in overconsumption.
- **Bulk carriers—Commodity prices and BDI not representative of world economy:** Despite lingering concerns over sustainability, the uptrends in Baltic Dry Index (BDI) and Commodity Research Bureau (CRB) Index are positive signs that the global economy has bottomed and is set to rebound. However, we note that: 1) the rise in CRB Index was partially caused by speculative demand amid weakness in the US dollar; and 2) the BDI will likely fluctuate widely for at least a year due to a temporary supply-demand gap worsened by massive deliveries of capesize carriers. For reference, assuming no delivery delays, 2010 should see an average of one capesize carrier delivered every day.
- **Oil tankers—Scrapping of single-hull tankers to be key:** Contrary to market expectations, sizeable new orders for product carriers are unlikely anytime soon. The product-carrier charter market appears to have suffered far more than other tanker segments, the daily freight rate for medium-range vessels having dropped to less than USD3,000 (below operating cost). This suggests that a charterer paying USD20,000/day in a contract signed a year ago, now earns only USD3,000/day.
- **Shipbuilding prices to stabilize over the longer term on supply cuts:** If 2010 deliveries are delayed more than anticipated, shipbuilders' profitability will fall short of market expectations in 1H10. Industry restructuring of some marginal players should continue—at least until 1H10—but the subsequent supply reduction will likely lay the foundation for new bubbles over the very long term.

Pain inevitable in wake of boom

Global new orders for 2009 should be limited to 15m GT, or about 15% of the 100m GT annual average during the 2003-2008 boom. As of end-September, new orders totaled 10.4m GT, 88% of which were bulk-carrier and oil-tanker orders (5.7m GT and 3.5m GT, respectively) that are sensitive to short-term demand changes. There appears to have been a slight shift in original order contracts—*eg*, vessel-type changes—but we consider it positive that demand still exists for low-priced vessels, prices of which have plunged more than 40% from their peak.

It is, however, still too early to argue that the shipbuilding industry will soon enjoy a full-fledged rebound, as: 1) there are no new orders for containerships, which normally involve long-term charter contracts; 2) it is difficult to gauge normal freight volume growth and freight rate movements, essential in forecasting new orders; and 3) volatility in supply-demand dynamics has increased due to supply controls by financially-strapped ship owners—*eg*, idling or scrapping activity, delays in deliveries or advance payments, requests for vessel-contract adjustments or cancellations. As a result, forecasting future supply-demand conditions is difficult.

It should also be some time before we see a return to a normalized new-order mechanism—*ie*, stabilization of charter fees, which facilitates the calculation of fair vessel prices, and normalization of ship financing—as discord surrounding the financing of existing orders continues between ship owners and financial institutions.

In our Jun 1 report entitled Marine & Shipping, we forecast that meaningful new order placements would resume only after 2011. Believing that more vessel delays will put back the timing of normal order placements, we place little significance on forecasting new orders for next year.

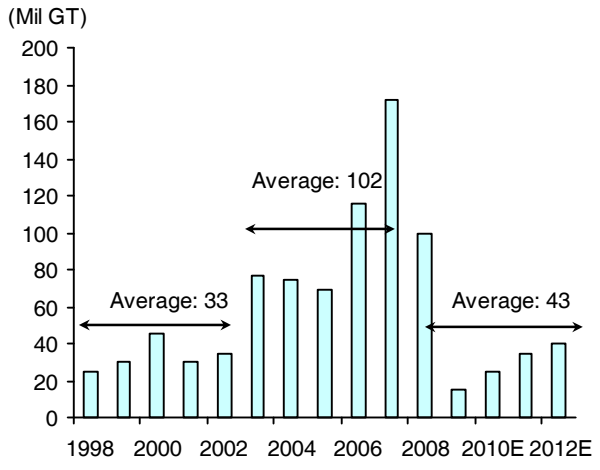
The explosive industry boom over 2003-2008 was driven by a combination of China's economic growth, aged-vessel replacement, International Maritime Organization regulations, and rising demand for energy-related vessels such as LNG carriers and offshore structures—this decade's new paradigm. It would be a stretch to assume that such vigorous demand will be sustained in the coming years, as boom years inherently involve a bubble.

During the boom, a rise in demand (to new heights) and a jump in freight rates drove up shipbuilding prices. In turn, the higher collateral value drew generous lending from financial institutions.

However, the Lehman debacle in 2H08 pricked the bubble, sending negative repercussions through various industries. It forced financial institutions to write down the collateral values of vessels, ship owners to write down asset values if vessel values proved to be in for permanent impairment, and shipbuilders that recklessly expanded facilities using advance vessel payments to suffer liquidity problems. As a stop-gap measure against book losses, the government has come up with various support measures. Nevertheless, no market participant can escape pain in the near term, although the extent should vary depending on firm's financial health and competitiveness.

The sheer size of order backlogs has raised concern regarding oversupply. Bulk carriers, containerships, and oil tankers have order backlogs equating to 70%, 45%, and 35% of their respective fleet capacities. The question is what are the factors that created the bubble in the first place—particularly in the containership segment—and can they be resolved anytime soon?

Figure 1. Global new shipbuilding order trend



Source: Clarksons, Samsung Securities estimates

Containerships: "State intervention will only serve to delay what needs to be done to restructure the industry"

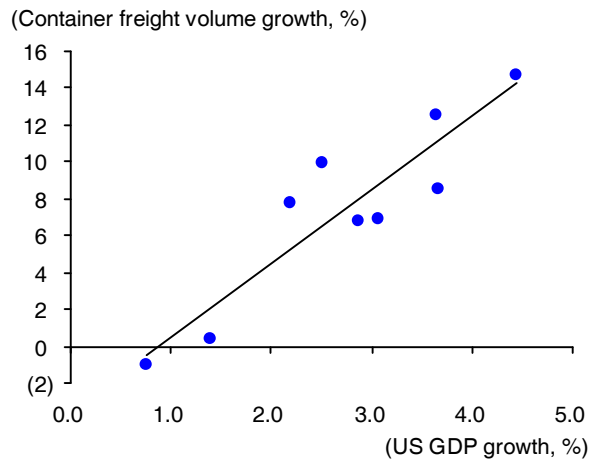
The above comment from Maersk CEO Eivind Kolding was made regarding the issue of voluntary consolidation of the containership market, after the world's leading marine companies CMA CGM and Hapag-Lloyd were driven to the brink of government bailouts. Such lifelines have to be thrown to those firms that can ride out the crisis with some assistance, as the marine industry has huge ramifications on the economy. In this sense, his comment was meant to imply how serious market conditions are.

On the supply side, Korean shipbuilders took around 90% of the world's orders for ultra-large containerships (over 8,000 TEU) and are known for on-time deliveries. Hence, the likelihood of order cancellations due to the fault of shipbuilders is very low. Despite vessel scrapping and idling, the segment should recover slower than the bulk-carrier market, in which Chinese small-scale players have frequently been late to deliver. On the demand side, explosive freight-volume growth over 2003-2008 was likely inflated by unsustainable factors—namely, overconsumption resulting from positive wealth effects.

Without overconsumption, containership freight volume to expand less than 10%

Global containership freight volume grew at a CAGR of 12.3% over 2003-2007—excluding 2008 when the global financial crisis emerged—partly due to US overconsumption. Such consumption, accounting for 70% of the country's GDP, is a crucial factor, as: 1) container freight volume is sensitive to demand for finished goods and US GDP growth; and 2) Asia-US routes represent 16.9% of global volume. For reference, the increase in orders for large containerships (10,000TEU or higher) since 2007 have been closely related to expansion of the Panama Canal. If US overconsumption is not sustained, the containership segment will long remain in oversupply, caused by the massive orders placed over 2003-2007 in anticipation of brisk economic growth. We do not expect a supply-demand balance to be restored until at least 2013, assuming that annual containership freight volume growth stays at 11% over 2010-2012.

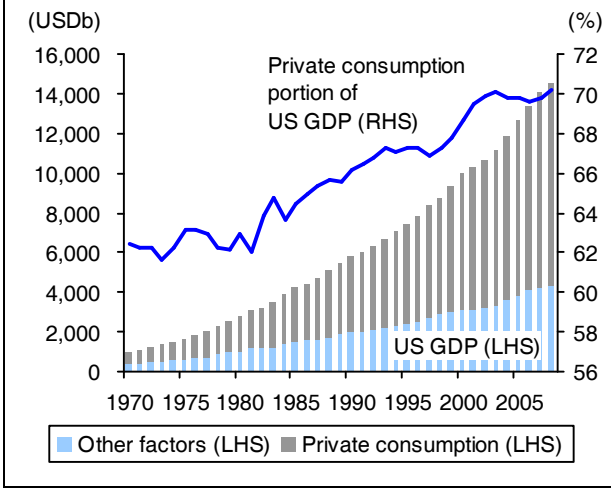
Fig 2. Global container freight volume growth vs US GDP growth



Note: Correlation between container freight volume growth and US GDP growth indicates 83% reliability

Source: Clarksons, Samsung Securities estimates

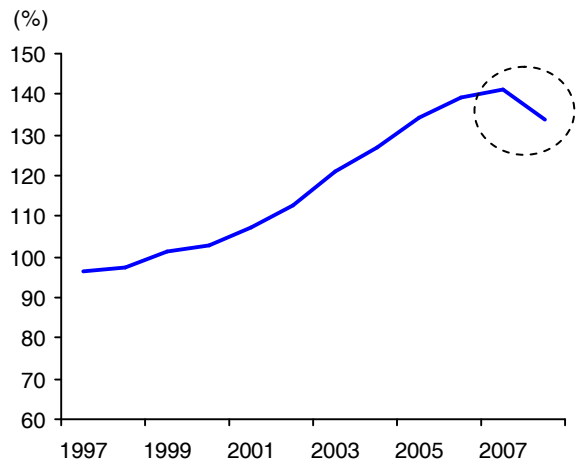
Fig 3. Consumption accounts for 70% of US GDP



Source: Bloomberg

The tendency toward overconsumption in the US is well shown by a surge in household-debt-to-disposable-income ratio from 96.2-112.8% over 1998-2002 to 120.8-141% over 2003-2007.

Figure 4. US household-debt-to-disposable-income ratio

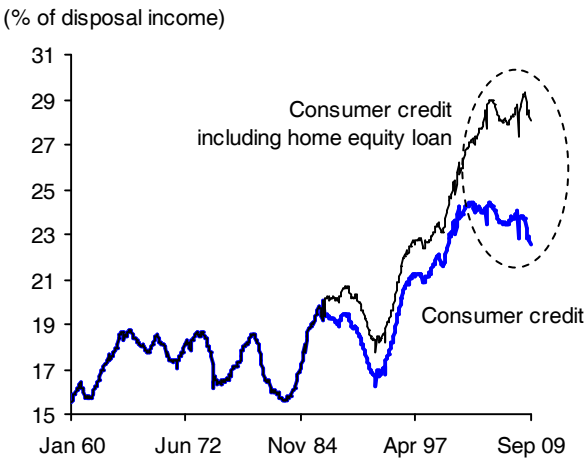


Source: Bloomberg

A steep downturn this year in US private credit growth and a recent reversal in US consumer credit (including mortgages)-to-disposable-income ratio from a sharp uptrend since 1995 suggest that the brakes have been put on overconsumption, caused by rising asset prices.

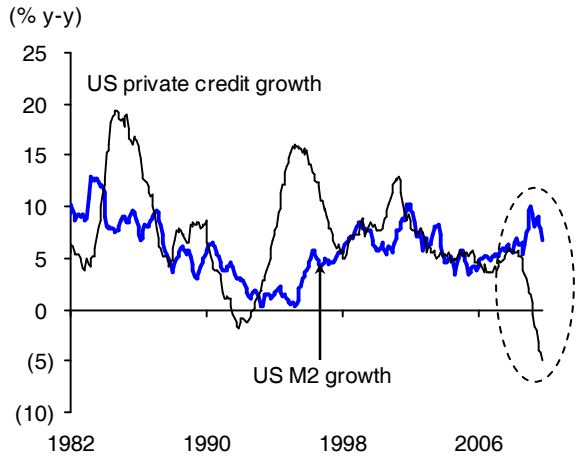
Given that the 2.8% pa real GDP growth in the US over 2003-2007 halves to 1.2% if adjusted for overconsumption (according to recent US government data), massive containership orders during the boom years have likely been based on overly optimistic freight-volume-growth assumptions. Such growth should stay below 10%, even after normalization, as long as overconsumption is not sustained.

Figure 5. US consumer-credit-to-disposal-income ratio



Source: Datastream

Figure 6. US private credit vs M2 growth



Source: Datastream

50% of deliveries expected to have been delayed in 2009

As of end-October, only 47.2% of scheduled containership deliveries were made—the figure for medium-to-large containerships (3,000 TEU or above) being even higher. Given that Korean shipbuilders have secured 90% of their order backlogs in over-8,000 TEU vessels, they appear to have been affected more by delivery delays than order cancellations. For this year as a whole, we expect a figure slightly above 50%. For 2010, we see little likelihood of a figure exceeding 50%, as delivery delays are expected to continue.

Containership fleet capacity grew 5.3% over January-October, and should have risen 6-7% over the full year. Assuming that containership freight volume falls 10% in 2009, we estimate this year's oversupply at 17%. If freight volume can grow at least 10% next year (helped by base effect), and fleet capacity growth is limited to 5%, the degree of oversupply should fall to around 10%.

The larger-than-expected number of vessel scrappings this year (exceeding the 200,000 TEU estimate at the beginning of the year), coupled with the impact of delivery delays, is also believed to have slowed fleet capacity growth this year.

New shipbuilding orders must be priced 20% higher

New orders for 3,500 TEU containerships are being priced as much as 45.5% under peak levels. Even factoring in favorable forex rates and lower costs of raw materials (*eg*, steel plate), margin erosion looks inevitable for shipbuilders.

Shipbuilding prices need to rise 20% in order to achieve operating margins of 8%—equating to a Clarkson index of around 170 (vs 142 now), similar to the average level in 2006.

Table 3. Shipbuilders' profitability in 3,500TEU containerships

(KRWb)	Previous peak	Now	Chg (%)
US dollar-denominated shipbuilding price (USDm)	67	36.5	(45.5)
KRW/USD rate	1,047	1161	
Won-denominated shipbuilding price	70	42	(39.6)
Operating profit	8	(4)	Turned negative
Operating margin (%)	**12**	**(8)**	
Total costs (C=A+B)	62	46	(25.5)
Cost of steel plate (A=axb)	12	6	(48.1)
Steel plate price (KRW'000/tonne)	1,350	700	
Steel plate consumption (tonnes, b)	9,000	9,000	
Other costs (B)	50	40	(20.0)

Note: Based on 3,500TEU containerships; assumes that steel plate and other costs will fall a respective 48% and 20% from previous peaks
(By our estimate, new shipbuilding orders must be priced 20% higher than now to achieve operating margins of 8%)
Source: Clarksons, Samsung Securities estimates

Table 4. Containership fleet growth over Jan-Oct 2009, by size

('000TEU)	Fleet in Jan	Fleet in Sep (A)	Order book in Sep (B)	Portion (C=B/A, %)	Fleet growth (%)	Deliveries (2009E, D)	Deliveries (Jan~Oct, E)	Reach (F=E/D, %)	Demolition volume*
100~999TEU	753	744	73	10	(1.1)	67	14	21.5	22
1,000~2,999TEU	3,597	3,573	433	12	(0.7)	335	146	43.5	168
3,000~7,999TEU	6,020	6,407	1,613	25	6.4	962	480	49.8	93
Over 8,000TEU	1,779	2,066	2,865	139	16.1	600	287	47.9	0
Total	**12,149**	**12,791**	**4,984**	**39**	**5.3**	**1,965**	**927**	**47.2**	**283**

Note: * Demolition volume over January-October exceeded our annual forecast of 210,000 TEU
Source: Clarkson, Samsung Securities estimates

Bulk carriers—Commodity price and BDI hikes not representative of global economy

The Baltic Dry Index (BDI), which plunged to around 600 in Dec 2008, has rebounded to the 3,000 level. Although the sustainability of such a rebound remains controversial given the pace of the global economic recovery and anticipated implementation of exit strategies by governments, the increases in BDI and Commodity Research Bureau (CRB) Index are clearly positive in signaling that the global economy has bottomed and should rebound.

Expectations of an economic recovery and rising demand are the two key catalysts behind recent commodity-price hikes. Also responsible, however, is speculative demand—with the US dollar exhibiting weakness—shown by the decoupling of the dollar value and CRB indices since 1995.

Figure 7. BDI vs CRB index

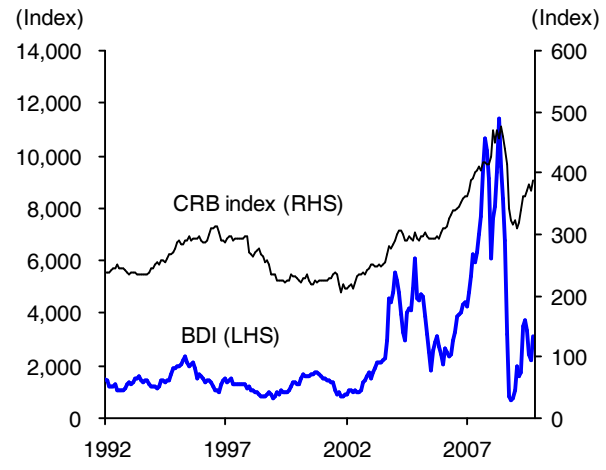
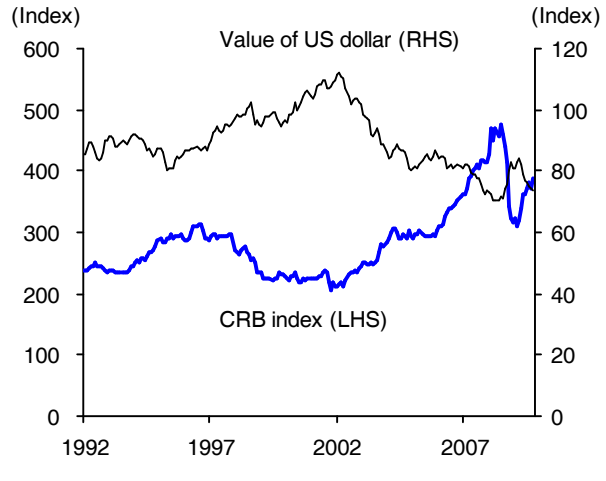


Figure 8. Value of US dollar vs commodity prices



Source: Bloomberg

The BDI surge in 1H09 was led by China, whose import portion of the world's iron ore (which accounts for around 30% of global dry cargo demand) climbed above 50%. Demand for iron ore in China has jumped to 60% this year (vs 30% in early 2000), driven by the government's aggressive stimuli, but demand outside China has declined. We therefore do not consider the rising BDI as fully representative of the global economy.

Figure 9. Global iron ore demand and portion of China

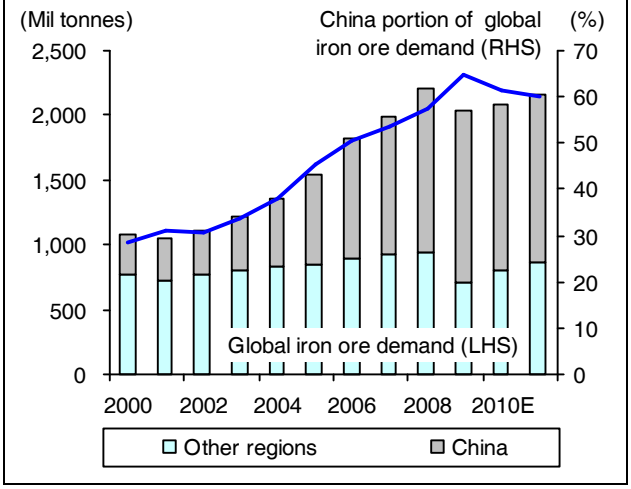
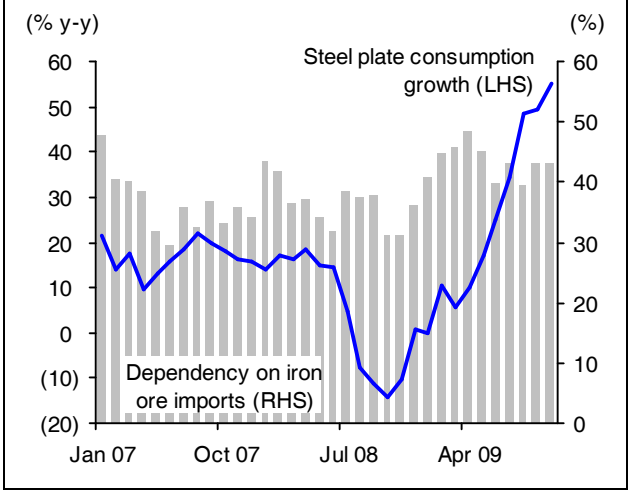


Figure 10. China's steel consumption and iron ore imports



Source: Bloomberg

We expect the BDI to fluctuate widely going forward, dependent on temporary supply-demand gaps, given expectations of capesize-carrier deliveries and the likelihood of continued order cancellations and delivery delays. For reference, 82 capesize carriers (around 10% of early-2009 fleet capacity) were delivered over January-October. Assuming no delivery delays, we expect 100 more in November and December, and an average of one capesize carrier every day next year.

As of end-October, only 45.1% of expected bulk carrier deliveries were made, similar to the 47.2% for containerships. However, the figure for capesize bulk carriers was 51.7%, even higher than the figure for over-8,000 TEU containerships. Bulk-carrier deliveries have been a concern, with Chinese shipyards holding more than 50% of the world's orders for such vessels. We believe capesize vessels will eventually be delivered, albeit later than scheduled, as more than 60% of orders this year were placed with financially healthy shipbuilders.

Concerns over order cancellations have been exacerbated by the fact that only around 30% of scheduled deliveries of handysize bulk carriers—ordered mainly by small Chinese players—have been made. However, given that only around 10% of bulk-carrier orders involve handysize vessels, even if 50% of handysize orders have been canceled, the impact on overall order backlogs in the bulk-carrier segment should be minimal. All in all, the concern over massive cancellations of bulk carrier orders could turn out to be overblown if orders for capesize carriers (accounting for 51.4% of total orders) are not canceled in large numbers.

Meanwhile, scrappings of bulk carriers came to 9.2m DWT over January-October, far lower than our 25m DWT estimate. We attribute this to an upward trend reversal in the BDI. Bulk-carrier fleet capacity grew 7.3% over January-October, vs an annual average of 5.8% over 2003-2008. Assuming a freight volume decline of around 4.7% in 2009, bulk-carrier oversupply should end the year at 12%.

If capesize-carrier orders are taken at current price levels, shipbuilders' margins will be insignificant, even assuming that steel-plate and other material costs decline 50% and 20%, respectively. Additional declines in vessel prices would deal a fatal blow to such profitability.

Table 5. Shipbuilders' profitability in 170,000DWT bulk carriers

(KRWb)	Previous peak	Now	Chg (%)
US dollar-denominated shipbuilding price (USDm)	99	56.5	(42.9)
KRW/USD rate	1,047	1161	
Won-denominated shipbuilding price	104	66	(36.7)
Operating profit	12	1	
Operating margin (%)	**12%**	**1%**	
Total costs (C=A+B)	91	65	(29.2)
Cost of steel plate (A=axb)	30	15	(48.1)
Steel plate price (KRW'000/tonne)	1,350	700	
Steel plate consumption (tonnes, b)	22,000	22,000	
Other costs (B)	62	49	(20.0)

Note: Based on 170,000DWT bulk carriers; assumes that steel plate and other costs will fall a respective 48% and 20% from previous peaks
Source: Clarksons, Samsung Securities estimates

Table 6. Bulk carrier fleet growth over Jan-Oct 2009, by size

(Mil DWT)	Fleet in Jan	Fleet in Oct (A)	Order book in Oct (B)	Portion (C=B/A, %)	Fleet growth (%)	Deliveries (2009E, D)	Deliveries (Jan~Oct, E)	Reach (F=E/D, %)	Demolition volume*
Capesize	144	164	142	87	14.5	31	16	51.7	2
Panamax	115	120	59	49	4.3	12	6	47.0	2
Handymax	83	90	48	54	7.7	19	8	40.0	1
Handysize	77	75	27	37	(2.4)	9	3	31.0	4
Total	**419**	**449**	**276**	**62**	**7.3**	**71**	**32**	**45.1**	**9**

Note: * Demolition volume over January-October reached 37% of our annual forecast of 25m DWT
Source: Clarkson, Samsung Securities estimates

Oil tankers—Scrapping of single-hull tankers to be key

We previously estimated that 84.4% or 57.7m DWT of single-hull tankers would be scrapped over 2009-2010 (11.9m and 45.8m DWT, respectively). However, only 6m DWT of single-hull tankers had been scrapped by end-October. Unless scrapping is carried out at a rate of 4m DWT per month next year, ship owners will likely try to control the supply of oil tankers (through delivery delays or order cancellations).

As much as 66% of this year's scheduled deliveries of oil tankers have been carried out, and the figure for VLCCs stands at a loftier 74.2%. Given that past annual growth in oil freight volume has averaged 2%, the 7% y-y growth in fleet size so far this year suggests that ship owners are preparing to scrap single-hull tankers in 2010. A less-than-expected amount of scrapping would therefore inevitably delay deliveries scheduled for 2010 and beyond, barring a sharp spike in oil demand.

Notably, small oil tankers (including product carriers) have been delivered on schedule less often than their larger counterparts. Only slightly more than 50% of scheduled deliveries of small oil tankers have been carried out on time, partly due to a recent plunge in freight rate.

The daily freight rate for medium-range vessels has dropped to less than USD3,000 (below operating cost). This suggests that a charterer paying USD20,000/day in a contract signed a year ago, now earns only USD3,000/day. The product-carrier charter market has suffered more severely than other tanker segments as gasoline freight volume on Europe-US routes halved following a drop in US gasoline demand of more than 10% y-y. New orders for product carriers are unlikely in the foreseeable future, contrary to market expectations.

Table 7. Charter rate a year ago vs current freight rate

(USD/day)	VLCC	Suezmax	Aframax	Handysize
Charter rate 1 year ago (A)	67,500	49,000	36,000	23,000
Current freight rate (B)	23,916	23,270	10,124	3,413
Diff (C=A-B)	43,584	25,730	25,876	19,587
As % of charter rate (D=C/A, %)	64.6	52.5	71.9	85.2

Source: Clarksons

VLCCs must be priced at minimum of USD100m

Even assuming a 50% drop in steel-plate prices and a 20% drop in other costs, VLCCs must be priced above USD100m to ensure reasonable margins for shipbuilders.

Table 7. Shipbuilders' profitability in VLCCs

(KRWb)	Previous peak	Now	Chg (%)
US dollar-denominated shipbuilding price (USDm)	162	105	(35.2)
KRW/USD rate	1,137	1161	
Won-denominated shipbuilding price	184	122	(33.8)
Operating profit	28	12	
Operating margin (%)	**15%**	**10%**	
Total costs (C=A+B)	157	110	(29.7)
Costs of steel plate (A=axb)	54	28	(48.1)
Steel plate price (KRW'000/tonne)	1,350	700	
Steel plate consumption (tonnes, b)	40,000	40,000	
Other costs (B)	103	82	(20.0)

Note: Based on 310,000DWT vessels; assumes that steel plate and other costs will fall a respective 48% and 20% from previous peaks
Source: Clarksons, Samsung Securities estimates

Table 8. Tanker fleet growth over Jan~Oct 2009, by size

(Mil DWT)	Fleet in Jan	Fleet in Sep (A)	Order book in Sep (B)	Portion (C=B/A, %)	Fleet growth (%)	Deliveries (2009E, D)	Deliveries (Jan~Oct, E)	Reach (F=E/D, %)	Demolition volume*
VLCC	153	162	62	38.0	5.9	21	16	74.2	2
Suezmax	56	59	22	37.3	7.1	10	6	54.9	0
Aframax	81	88	19	21.0	8.8	12	10	79.0	1
Panamax	26	28	6	21.4	6.9	4	3	61.7	0
Other	91	97	27	27.4	7.2	16	9	54.1	2
Total	**406**	**434**	**135**	**31.0**	**7.0**	**64**	**42**	**66.0**	**6**

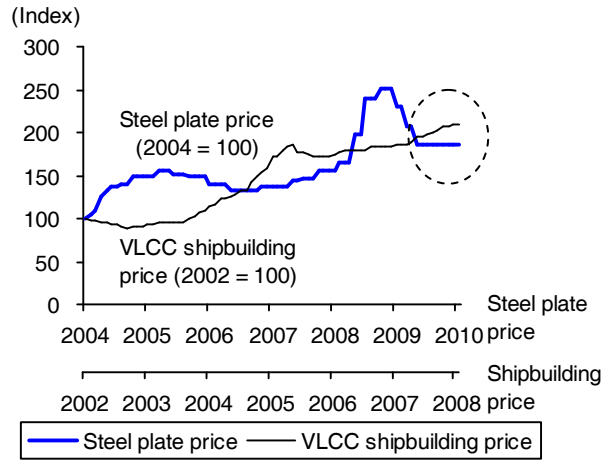
Note: * Demolition volume over January-October came to 52% of our 12m DWT annual forecast
Source: Clarksons, Samsung Securities estimates

Shipbuilders' 1H10 profitability may miss expectations on supply controls by ship owners

Delivery delays began to affect shipbuilders' earnings from 2H09—albeit to different degrees of magnitude—as shown by stagnant quarterly sales at major players. We expect quarterly sales to start diminishing y-y from 2H10, given: 1) the low likelihood of strong new-order streams next year; and 2) the fact that shipbuilding prices are now 40% off peak.

It is reasonable to predict profitability improvement from 4Q09, as: 1) steel plate inventories built at high cost over 4Q08-1Q09 were depleted in 3Q09 leaving plate purchased at lower prices to be put into operation; and 2) high-priced orders received in 2007 should start being recognized as sales. However, if deliveries next year are delayed more than expected, profitability improvement will fall short of market expectations.

Figure 11. Shipbuilders' profitability to peak in 1H10

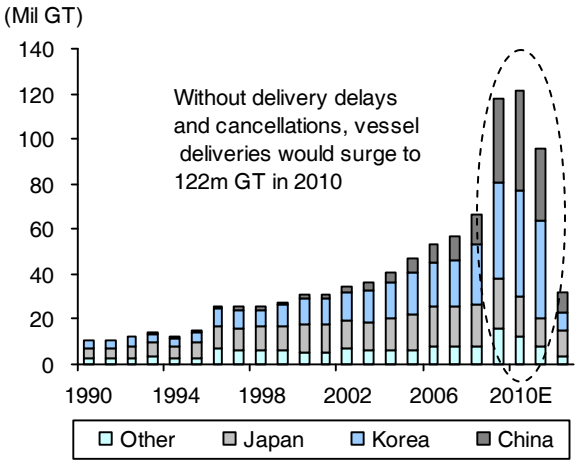


Note: Shipbuilders' profitability should peak in 1H10, given: 1) the massive scale of construction of high-priced vessels ordered in 2007; and 2) exhaustion of firms' high-priced steel-plate inventory

Source: Posco, Dongkuk Steel Mill, Clarksons, Samsung Securities estimates

Without delivery delays and order cancellations, the world's annual deliveries would likely increase to 121.6m GT in 2010 from 66.4m GT in 2008. In reality, however, this year's figure is estimated to reach just 70m GT. Faced with ship owners' supply controls, shipbuilders have either delayed or reduced capex plans for after 2009. Assuming no huge capex from 2010, we estimate global shipbuilding capacity to be somewhere between 75m and 80m GT. As a result, some shipbuilders who pushed for aggressive capex using advance payments during the boom years may suffer serious liquidity shortages due to the new-order drought and delays in deliveries and advance-receipt collection.

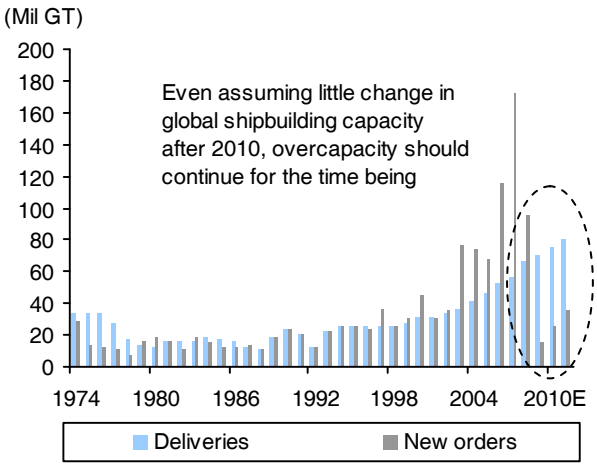
Figure 12. Vessel delivery schedule based on end-2008



Source: Clarksons

Shipbuilding prices are a representative yardstick with which to measure industry conditions, and their major determinants are supply-demand dynamics and steel-plate prices. We do not foresee a surge in shipbuilding prices in the foreseeable future, but if they stop plunging and become stable (at least), the major reason would be a reduction in shipbuilding capacity through consolidation or restructuring of marginal shipbuilders—and not soaring steel-plate prices or explosive demand growth). For reference, annual new orders from 2011 would be around 50m-60m GT under normal conditions, suggesting that around 20m GT will still need to be idled each year. Industry restructuring should continue well into 1H10, but subsequent supply cuts should lay the foundation for new bubbles over the much longer term.

Figure 13. Global new vessel orders vs deliveries



Source: Clarksons, Samsung Securities estimates

Appendix: Earnings forecasts and valuations

Year-end	Sales	Op prof	Pre-tax prof	Net prof	EPS	Chg	P/E	Net debt	FV/EBITDA	P/B	ROE
Dec 31	(KRWb)	(KRWb)	(KRWb)	(KRWb)	(KRW)*	(%)	(x)	(KRWb)	(x)	(x)	(%)
HHI (KRW167,000, TP: KRW220,000)											
2007	15,533	1,751	2,394	1,736	22,968	117.0	7.3	(3,422)	4.4	2.3	35.6
2008	19,957	2,206	2,950	2,257	29,409	28.0	5.7	(2,443)	4.0	2.3	40.3
2009E	21,012	2,128	2,464	1,922	24,243	(17.6)	6.9	(285)	4.6	1.6	27.2
2010E	21,994	2,778	3,085	2,221	29,514	21.7	5.7	220	3.8	1.4	25.9
2011E	20,210	2,453	2,723	1,960	26,078	(11.6)	6.4	(577)	4.0	1.2	19.6
SHI (KRW23,750, TP: KRW28,000)											
2006	8,519	457	659	485	2,342	191.1	10.1	(2,464)	4.1	3.0	26.8
2007	10,664	755	842	627	3,042	29.9	7.8	(2,332)	3.6	2.4	34.0
2008	13,079	939	885	672	2,885	(5.2)	8.2	(79)	5.0	1.7	24.2
2009E	13,407	1,148	1,160	846	3,655	26.7	6.5	695	4.3	1.5	24.6
2010E	11,797	952	1,025	738	3,187	(12.8)	7.5	669	4.8	1.5	20.4
HMD (KRW101,000, TP: KRW130,000)											
2006	2,848	363	732	529	16,050	51.9	6.3	426	6.0	0.7	14.9
2007	3,805	537	716	519	26,595	65.7	3.8	1,250	5.6	0.9	19.9
2008	3,940	396	530	398	20,529	(22.8)	4.9	1,033	6.3	0.7	16.4
2009E	3,993	552	676	486	24,579	19.7	4.1	712	4.3	0.6	16.8
2010E	3,863	522	642	462	23,378	(4.9)	4.3	203	3.6	0.6	14.2
DSME (KRW16,300, TP: KRW23,000)											
2006	7,105	307	443	321	1,689	3,237.1	9.6	(1,963)	2.6	1.8	19.2
2007	11,075	1,032	579.7	402	1,789	5.9	9.1	(722)	2.1	1.5	17.9
2008	12,676	765	917	669	3,538	97.8	4.6	535	3.5	1.2	29.4
2009E	12,837	909	855	598	3,202	(9.5)	5.1	501	3.5	0.9	20.9
2010E	10,062	512	491	354	1,928	(39.8)	8.5	893	5.7	0.9	11.0
HHIC (KRW23,050, TP: KRW35,000)											
2008	3,848	510	135.9	63	4,263	nm	5.4	2,500	14.3	0.5	13.4
2009E	3,296	476	290	203	3,492	(18.1)	6.6	2,070	6.8	0.4	7.3
2010E	3,204	326	261	188	3,993	14.4	5.8	1,705	6.4	0.4	7.4

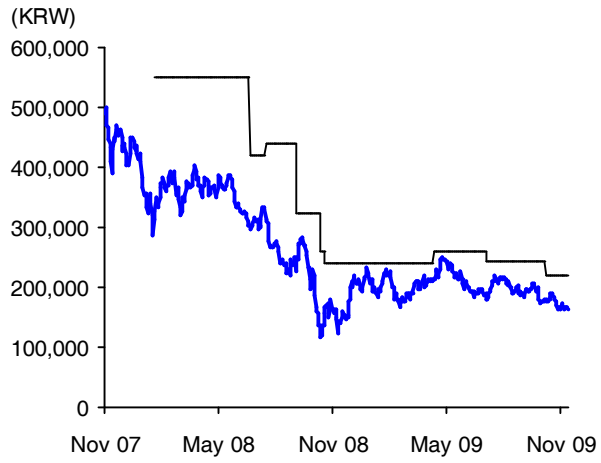
Note: Share prices as of Nov 12 close

* Fully diluted, excluding one-off items

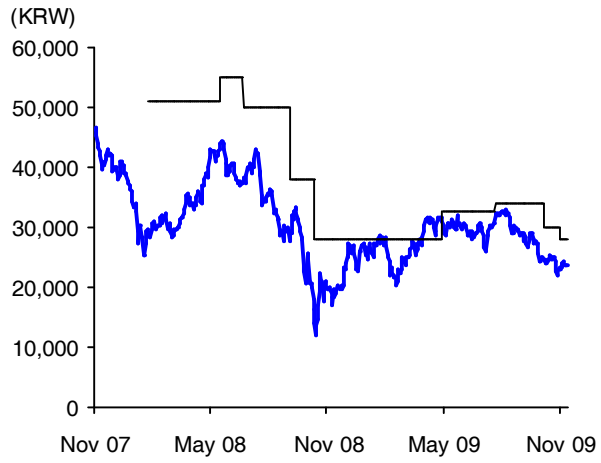
Source: Samsung Securities estimates

Target price changes in past two years

Hyundai Heavy Industries (009540)

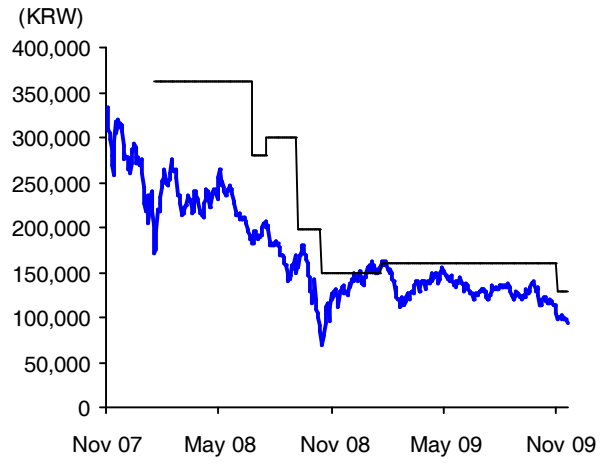


Samsung Heavy Industries (010140)

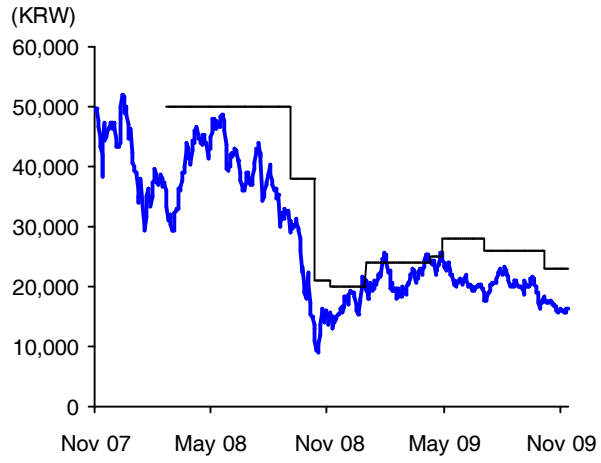


Hanjin Heavy Industries & Construction (097230)

Hyundai Mipo Dockyard (010620)



Daewoo Shipbuilding & Marine Engineering (042660)



Rating changes in past two years

Hyundai Heavy Industries

Date	2007. 11/19	2008. 2/1	7/7	7/30	9/16	10/24	10/31	2009. 4/30	7/13	10/13
Recommendation	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)
Target price	660,000	551,000	420,000	440,000	325,000	260,000	240,000	260,000	243,000	220,000

Samsung Heavy Industries

Date	2007. 11/19	2008. 2/11	6/2	7/7	9/16	10/24	2009. 5/11	7/28	10/13	11/3
Recommendation	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)
Target price	67,800	51,000	55,000	50,000	38,000	28,000	32,600	34,000	30,000	28,000

Hanjin Heavy Industries & Construction

Date	2007. 11/19	2008. 2/5	7/7	9/16	10/24	11/17	2009. 1/9	2/5	4/20	5/15
Recommendation	BUY(M)	BUY(M)	BUY(M)	BUY(M)	HOLD(M)	HOLD(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)
Target price	116,000	89,500	55,000	44,000	33,000	27,000	40,000	38,000	43,000	48,000
Date	7/13	8/14	10/13							
Recommendation	BUY(M)	BUY(M)	BUY(M)							
Target price	42,600	41,800	35,000							

Hyundai Mipo Dockyard

Date	2007. 11/19	2008. 1/30	7/7	7/30	9/16	10/24	2009. 1/29	10/29
Recommendation	BUY(M)	BUY(M)	BUY(M)	BUY(M)	BUY(M)	HOLD(M)	HOLD(M)	HOLD(M)
Target price	495,800	363,000	280,000	300,000	197,000	150,000	160,000	130,000

Daewoo Shipbuilding & Marine Engineering

Date	2007. 11/19	2008. 3/6	9/16	10/24	11/17	2009. 1/9	4/20	5/12	7/13	10/13
Recommendation	BUY(M)	BUY(M)	BUY(M)	HOLD(M)	HOLD(M)	HOLD(M)	HOLD(M)	HOLD(M)	HOLD(M)	HOLD(M)
Target price	64,000	50,000	38,000	21,000	20,000	24,000	25,000	28,000	26,000	23,000

- **Stock Ratings:** Our stock rating system consists of two tiers—investment ratings (BUY, HOLD, and SELL recommendations based on absolute returns of shares over the next 6 months) and risk ratings (High, Medium, or Low).

BUY : An expected return of +10% or greater for a low-risk stock, +15% or greater for medium risk, and +20% or greater for high risk
HOLD : An expected return between -10% and +10% for a low-risk stock, -15% and +15% for medium risk, and -20% and +20% for high risk
SELL : An expected return of -10% or worse for a low-risk stock, -15% or worse for medium risk, and -20% or worse for high risk

This report has been prepared without any undue external influence or interference, and accurately reflects the personal views of the analyst(s) on the company(ies) herein. [Analyst: PJ Yoon]