

## Autos &amp; Industrials - Korea

## View on Red Sea disruption impact

## Industry Overview

**Auto & Parts: Minimal impact to Hyundai/Kia**

We believe Hyundai and Kia will be able to cope with export disruption risks arising from unrest in Red Sea via their inventories in Europe (e.g. 2.2 months-of-sales for Hyundai as of end-2023) while extending production shifts and UPH productivity at local plants in Czech Republic, Türkiye and Slovakia. Hyundai's/Kia's shares were largely unaffected by global shipping disruption and freight rate hikes in 2021-22. While the MENA region accounted for 9% of Hyundai's export volume from Korea as of 4Q23 (vs. North America's 60%), our conversations with Hyundai indicate that there has been no export disruption reported to date. Even under a conservative scenario of freight costs potentially doubling in 2024E, we see negative revenue impact of -1.8% YoY which could be more than offset by weakening KRW-USD (+3.5% YoY in Jan'24 alone) and product mix gains. In this case, we expect Hyundai Glovis's car carrier business to see upside to PCTC contract rates during its next negotiation round with global OEMs, which could partially erase the supply pressure arising from higher PCTC delivery units in 2024E (45 vs. 11 in 2023), in our view. On the other hand, we expect after-service operations of Hyundai Mobis to see margin pressure from rising seaborne transportation costs (and potential transition to costly air transportation) amidst limited room to raise prices of repair parts as generic parts makers have fully revamped production capacities as of end-2023. As highlighted in our 'Hankook Tire: A diamond in the rough' report, we expect Hankook to offset freight rate risks via higher localization in Hungary and raising replacement tire prices.

**Shipbuilding: Await replacement order triggers**

Hypothetically, higher freight rates could improve the balance sheet of shipowners and hence, lead to higher new order potentials for Korean shipbuilders (see Exhibit 1). At the same time, increasing vessel ton-mile could help sustain supply-demand balance against rising supply (e.g. delivery growth in 2024E), which dovetails with low ship demolition and secondhand ship price recovery recently. In near-term, we see limited new order boost potentials given that current shipping rates are driven by unrest in MENA, rather than the structural shortage story seen in 2020-21 (e.g. COSCO is not seeing much evidence of box shortages or port congestion while the company has sped up to an average of 15-16 knots in response to the tighter market, as highlighted in our recent ['Shipping: Key takeaways from Red Sea disruption call with COSCO Shipping Holdings'](#) report). A protracted shipping disruption in the region, if any, could accelerate the pent-up orders from those shipowners that postponed newbuild investment on green ships due to elevated vessel prices. Note that LNG dual-fuel (DF) design vessels constituted only 1.5% of global fleet (as of end-2023) even after new order rush witnessed in 2020-23. Under this scenario, we expect all Korean yards to benefit; 1) HD Hyundai Heavy from containerships and VLCC, 2) Hyundai Mipo from product-chemical tankers, and 3) Samsung Heavy from containerships and Suezmax/Aframax tankers.

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Equity  
Republic Of Korea  
Autos & Industrials

**KJ Hwang >>**  
Research Analyst  
Merrill Lynch (Seoul)  
+82 2 3707 0460  
[kj.hwang@bofa.com](mailto:kj.hwang@bofa.com)

**Dongho Shin >>**  
Research Analyst  
Merrill Lynch (Seoul)  
[dongho.shin@bofa.com](mailto:dongho.shin@bofa.com)

UPH: Units per hour

MENA: Middle East and North Africa

PCTC: Pure car and truck carrier

OEM: Original equipment manufacturer

LNG: Liquefied natural gas

VLCC: Very large crude carrier

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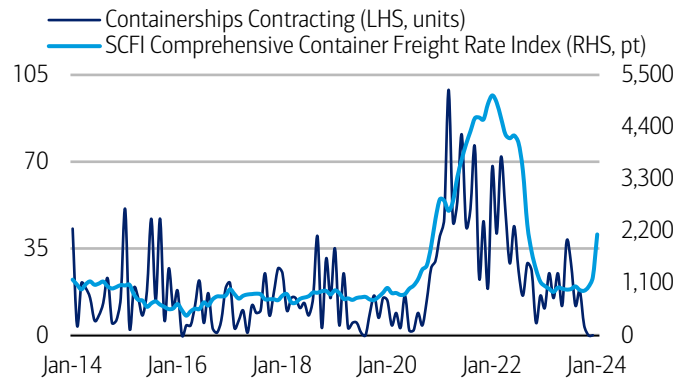
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**Exhibit 1: SCFI index vs. Containership contract**

Higher freight rates could improve the balance sheet of shipowners and hence, lead to higher new order potentials for Korean shipbuilders

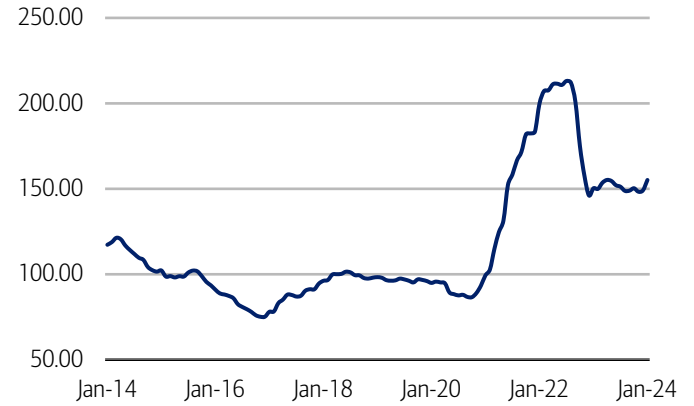


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**Exhibit 2: Secondhand price index (pt)**

Second-hand ship price index marked 155pt as of Jan'24

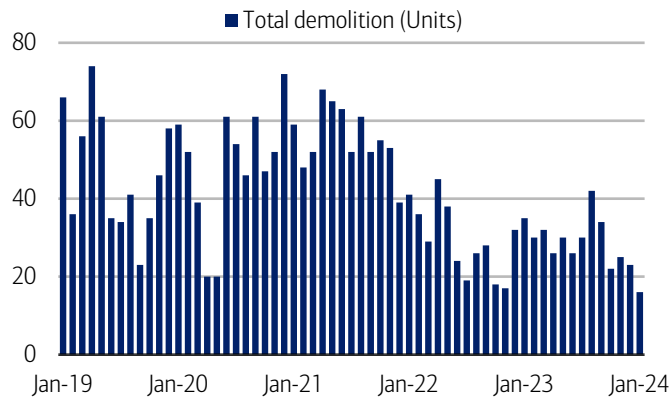


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**Exhibit 3: Monthly demolition trend (Units)**

Monthly demolition units trended down to 23 units as of Dec'23

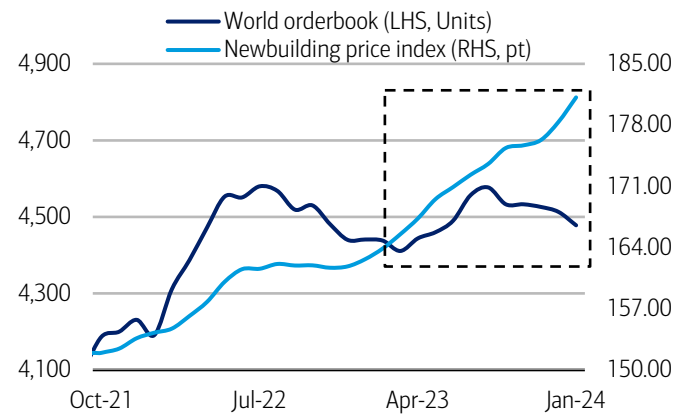


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**Exhibit 4: Newbuild price vs. orderbook**

We find that newbuild price trend has decoupled from falling backlog

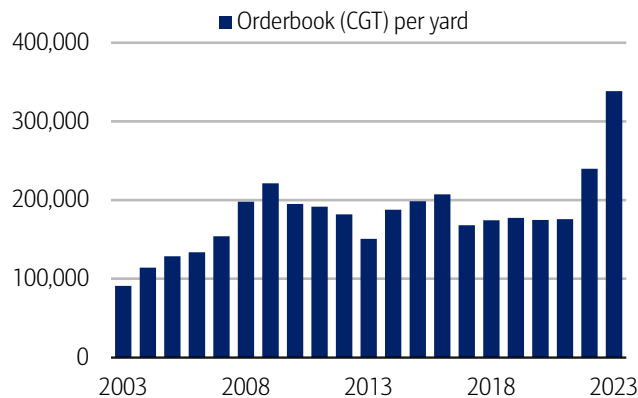


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**Exhibit 5: Orderbook per yard (CGT)**

Orderbook per yard soared to 338k CGT in 2023

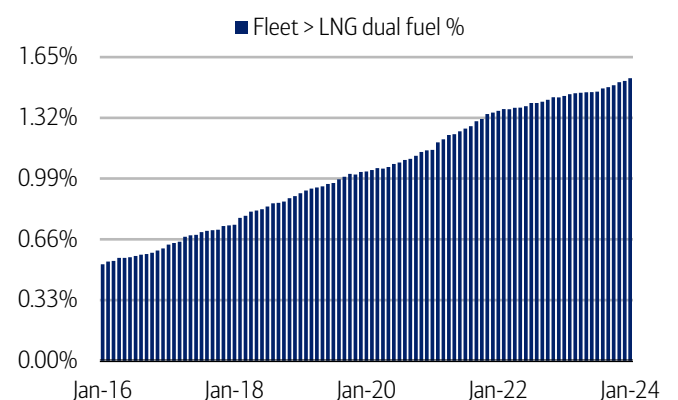


Source: Clarksons Research, BofA Global Research

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**Exhibit 6: LNG dual fuel fleet portion**

LNG DF design vessels constituted only 1.5% of global fleet (as of end-2023)



Source: Clarksons Research, BofA Global Research

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