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Chemical

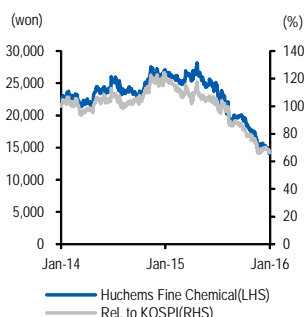
BUY (Initiate)

TP: W25,000

Share price (won, Jan 22)	14,300
Paid-in capital (Wbn)	41
Market cap (Wbn)	585
BPS (won)	12,578
Net debt to equity (%)	-13.6
Shares outstanding	40,878,588
Avg daily T/O (2M, Wbn)	3
Avg daily vol (2M, shrs)	174,287
52-week high (won)	28,150
52-week low (won)	14,050
Foreign ownership (%)	3.8
Major shareholders (%)	
Yeon-cha Park & others	40.1

Stock performance (%)

	1M	3M	12M
Absolute	(5.6)	(25.3)	(46.6)
Relative	0.1	(19.6)	(45.5)
Abs (US\$)	(7.7)	(29.2)	(51.8)



Quarterly earnings

(Wbn)	4Q15E	% YoY	% QoQ	Consens	vs consens (%)
Sales	143	-29.0	-3.8	149	-4.2
Operating profit	9	-25.7	17.6	11	-18.2
Pre-tax profit	8	-26.6	13.4	8	-4.0
Net profit	6	-29.0	11.4	7	-16.1
Op margin (%)	6.1	+0.2 %pt	+1.1 %pt	7.2	-1.1 %pt
Net margin (%)	4.2	0	+0.6 %pt	4.8	-0.6 %pt

Source: Yuanta Securities

Huchems (069260 KS)

Mitsui Chem's plant shutdown provides opportunity to recover

Resume coverage with BUY and target price of W25,000; shares at bottom Huchems makes dinitrotoluene (DNT) and mono-nitro benzene (MNB), the key raw materials for manufacturing urethane (which is used to make mattresses, artificial leather, insulators, and coolants), and the company is almost a monopoly player in Korea.

We resume coverage at BUY and a target price of W25,000, as we expect enterprise value to recover over 2016~2017. In particular, earnings, which fell from 2012 to 2015, should turn around from 2016. Operating profit, which came to W66.5bn in 2012, likely came to W46.0bn in 2015, and should climb to W59.6bn in 2016, W72.7bn in 2017, and W201.7bn in 2019. We believe valuations are attractive, as shares are now trading at a P/B of 1.1x, which is below the past 10 year P/B band of 1.6x~2.4x.

Investment point 1: Mitsui Chemical shutdown likely to benefit Huchems In May 2016, Japan's Mitsui Chemical is set to shut down its 120,000-tpa TDI and 60,000-tpa MDI plant as part of efforts to close outdated production facilities. Mitsui's existing clients will likely shift their TDI and MDI orders to Korea, as it is close to Japan. Thus, Huchems, which provides raw materials to TDI and MDI makers, should see sales recover. First of all, over 1Q~2Q16, DNT sales to OCI and Hanwha Fine Chemical are likely to begin recovering. MNB sales are also expected to increase in 2017, when Kumho Mitsui is set to complete its 100,000-tpa MDI capacity expansion.

Investment point 2: Expectations for profit from Malaysia ammonia plant still valid Huchems is building a plant that will produce 600,000 tonnes per year of ammonia (using natural gas) in Sarawak, Malaysia, with construction set to finish at end-2018. Concerns over profit were raised after the international ammonia price fell to \$320/tonne at end-2015, but these seem overblown. The current price of \$320, translates into a 15% operating margin for the firm, even considering the production cost of \$250/tonne (= natural gas \$4.8/mmbtu × 33x + fixed expense of \$100). When the price normalizes to \$500/tonne, operating margin would rise to 30%.

Investment point 3: Large investment unlikely to hurt finances Over 2016~2018, the company is set to invest W260.0bn in the ammonia plant in Malaysia and a fertilizer plant in Vietnam. The company is able to fund these those projects without external financing, given its cash equivalents of W240.0bn, including investments in financial instruments and its annual surplus cash of W20.0bn.

Forecasts and valuations (K-IFRS, consolidate)

	2013A	2014A	2015E	2016E
FY ends Dec				
Sales	796	717	589	675
Operating profit	60	53	46	60
Net profit, CI	54	41	36	42
% YoY	0.9	-24.8	-10.3	14.1
P/E (x)	17.2	23.9	16.1	14.1
P/B (x)	1.9	2.0	1.2	1.1
EV/EBITDA (x)	9.1	10.9	6.4	6.0
ROE (%)	11.8	8.7	7.7	8.5

Note: OP = gross profit - SG&A

Source: Yuanta Securities

Huchems (069260 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2013A	2014A	2015E	2016E	2017E
Sales	796	717	589	675	820
Cost of sales	698	621	498	573	696
Gross profit	98	95	92	102	124
SG&A	38	42	46	42	51
Operating profit	60	53	46	60	73
EBITDA	99	89	82	100	121
Non-op profit/loss	11	-3	0	-4	-7
Forex gain/loss	0	1	2	0	0
Net interest inc	-4	-3	-3	-4	-7
Equity-meth gain/loss	0	0	0	0	0
Other	15	-1	1	0	0
Net prof before income tax	70	50	46	56	66
Income tax	20	12	11	13	16
Net profit from cont op	50	38	35	42	50
Net profit from discount op	0	0	0	0	0
Net profit	50	38	35	42	50
NP for controlling int	54	41	36	42	49
Total comprehensive inc	51	38	34	42	50
TCI for controlling int	55	40	35	40	47

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A).

Statement of financial position

FY ends Dec (Wbn)	2013A	2014A	2015E	2016E	2017E
Current assets	402	319	408	335	295
Cash & cash equiv	25	22	84	89	73
Accts rec & other	112	102	79	95	115
Inventory	32	28	32	38	45
Non-current assets	374	424	346	430	507
Tangible assets	321	301	283	368	446
Investment in affiliate	18	19	20	20	20
Other non-current	6	74	14	14	14
Total assets	776	743	753	765	802
Current liabilities	163	218	149	145	152
Accts payable & other	68	76	46	56	65
ST financial liabilities	35	61	71	52	54
Liquid LT liabilities	45	75	28	32	28
Non-current liabilities	150	52	124	120	120
LT financial liabilities	84	31	20	16	16
Debentures	50	0	80	80	80
Total liabilities	313	270	273	265	272
Equity, controlling int	459	471	479	499	528
Paid-in capital	41	41	41	41	41
Capital surplus	182	182	182	182	182
Retained earnings	266	277	292	312	342
Equity, non-control int	4	2	1	1	1
Total equity	464	473	480	500	530
Net debt	-24	3	-65	12	76
Total debt	228	183	218	199	197

Cash flow statement

FY ends Dec (Wbn)	2013A	2014A	2015E	2016E	2017E
Operating cash flow	87	98	52	63	74
Net profit	50	38	35	42	50
Depreciation & amort	38	35	34	39	47
Forex gain/loss	0	-1	-1	0	0
Affiliate invest gain/loss	2	2	1	0	0
Inc(dec) net working cap	-4	20	-16	-19	-23
Other	1	3	-2	0	0
Investing cash flow	-62	-21	-11	-39	-91
Investment	12	-31	-3	0	0
Inc in tangible assets	-24	-14	-20	-125	-125
Dec in tangible assets	0	0	0	0	0
Other	-50	24	12	86	34
Financing cash flow	-32	-79	11	-40	-22
Inc(dec) in ST fin liab	-6	-29	16	-18	2
Inc(dec) in LT fin liab	23	-20	22	0	-4
Inc(dec) in equity	0	0	0	0	0
Cash dividend	-28	-30	-22	-21	-19
Other	-20	0	-5	0	0
Other cash flow	0	0	11	21	22
Inc (dec) in cash & eq	-6	-2	62	5	-16
Beginning cash & equiv	31	25	22	84	89
Ending cash & equiv	25	22	84	89	73
NOPLAT	60	53	46	60	73
FCF	55	83	35	-58	-44

Valuation

FY ends Dec	2013A	2014A	2015E	2016E	2017E
EPS (won)	1,320	993	891	1,016	1,200
BPS (won)	11,658	11,963	12,308	12,827	13,588
EBITDA/shr (won)	2,431	2,186	2,004	2,458	2,965
SPS (won)	19,465	17,531	14,420	16,501	20,052
DPS (won)	750	550	550	500	500
P/E (x)	17.2	23.9	16.1	14.1	11.9
P/B (x)	1.9	2.0	1.2	1.1	1.1
EV/EBITDA (x)	9.1	10.9	6.4	6.0	5.5
PSR (x)	1.2	1.4	1.0	0.9	0.7

Key financial data

FY ends Dec	2013A	2014A	2015E	2016E	2017E
Sales (% YoY)	11.5	-9.9	-17.7	14.4	21.5
Operating profit (%YoY)	-9.5	-11.5	-12.8	29.5	22.0
NP, CI (%YoY)	0.9	-24.8	-10.3	14.1	18.1
Gross margin (%)	12.3	13.3	15.6	15.1	15.1
Operating margin (%)	7.5	7.4	7.8	8.8	8.9
NP, CI margin (%)	6.8	5.7	6.2	6.2	6.0
EBITDA margin (%)	12.5	12.5	13.9	14.9	14.8
ROIC (%)	10.2	10.4	9.4	10.7	10.6
ROA (%)	7.0	5.3	4.9	5.5	6.3
ROE (%)	11.8	8.7	7.7	8.5	9.6
Debt-to-equity (%)	67.5	57.0	56.9	53.0	51.3
Net debt-to-equity (%)	-5.3	0.6	-13.6	2.4	14.4
OP/financing cost (x)	6.0	5.8	5.5	6.0	7.3

Note: EPS, BPS, P/E and P/B are based on controlling interest

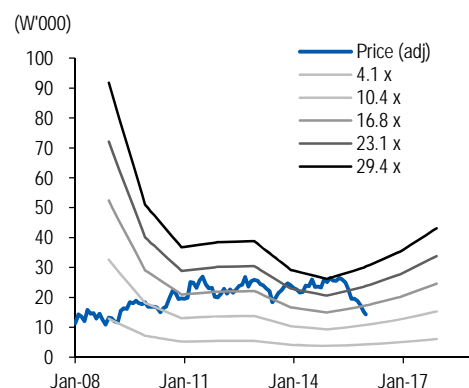
For valuation metrics such as P/E, historical figures are based on annual averages, estimates on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for given year and year prior

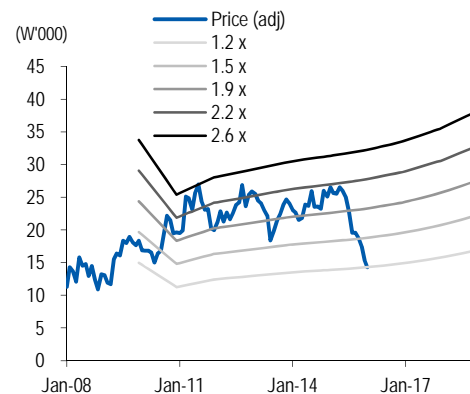
Data to 2010 based on K-GAAP and from 2011, K-IFRS

Source: Yuanta Securities

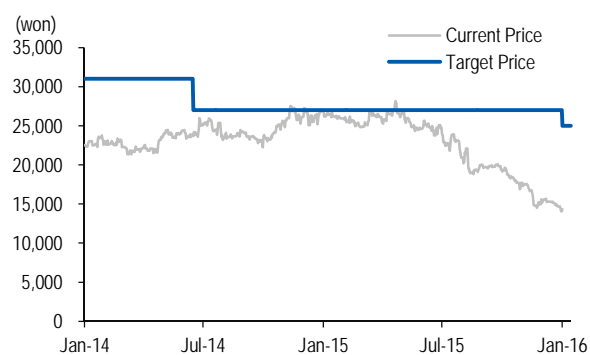
P/E band



P/B band



Huchems (069260 KS) ratings and target price history



Date	Rating	TP (won)
2016-01-22	BUY	25,000
2014-12-22	HOLD	27,000
2014-11-27	HOLD	27,000
2014-11-24	HOLD	27,000
2014-10-29	HOLD	27,000
2014-10-06	HOLD	27,000
2014-09-01	HOLD	27,000
2014-08-14	HOLD	27,000
2014-07-07	BUY	27,000
2014-06-02	BUY	31,000

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	2.3
BUY	81.4
HOLD	16.3
SELL	0.0
Total	100.0

Note: As of Jan 20, 2016

※ Excluding reports written or published by overseas affiliates

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
 - Strong Buy: Expected to return 30% or more
 - Buy: Expected to return between 10% and 30%
 - Hold: Expected to return between -10 and +10%
 - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
 - Overweight: Investment weighting is higher than the market capitalization weighting
 - Neutral: Investment weighting is equal to the market capitalization weighting
 - Underweight: Investment weighting is lower than the market capitalization weighting

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