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## Korea

### Miscellaneous

Reuters 037440.KQ  
Bloomberg 037440 KQ

**Priced on 04 November 2010**  
Korea Kospi @ 1,942.5

**12M hi/lo** 11,000 /7,100 won

**12M price target** 12,700 won  
**±% potential** +35%  
**Target set on** 10 Aug 10

**Shares in issue** 12.9m  
**Free float (est.)** 59.6%

**Market cap** US\$119m

**3M average daily volume**  
.4bn won (US\$.4m)

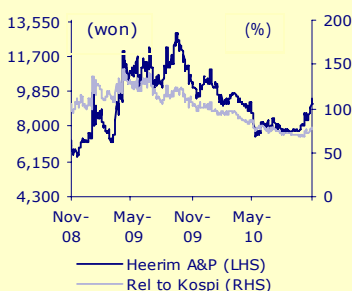
**Foreign s'holding** 10.4%

#### Major shareholders

Jeong, Young-Kyoon and related  
40.4%

### Stock performance (%)

	1M	3M	12M
Absolute	16.5	22.8	(9.5)
Relative	12.8	13.1	(26.4)
Abs (US\$)	18.1	29.5	(3.7)



Source: Bloomberg

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## 3Q10 results, maintain BUY

Heerim reported 3Q results during the market yesterday. Revenue was 42bn won, up 3.7% YoY but 10% lower than our forecast. OP was higher than expected from cost saving efforts, which resulted in 3.9bn won in NP, up 11.5% YoY and 5% above our forecast. Revenue is yet to pick up but new orders are up 36% YTD YoY. Slow revenue recognition overseas and redevelopment projects, which normally take longer to start than normal design projects. There have been no change to earnings but by rolling forward earnings we increase our target price from 12,000 won to 12,700 won. Trading on 10x 11CL it looks cheap. Buy with 35% upside.

### 3Q10 results

Heerim's 3Q10 revenue was 42.1bn won, up 3.7% YoY, which was lower than our forecast by 10%. Revenue recognition of redevelopment projects (CM) and overseas were disappointing. The reason is that it normally takes longer to start compared to normal design projects.

### Margin improvement

OP was 4.5bn won, ahead of our forecast by 3% as the margin improved significantly from 7% in 1H10 to 10% from cost saving efforts. Overall net profit was 3.9bn won, +12% YoY. We were expecting 3.7bn won.

### New orders up 36% YTD

As of 3Q10, new orders are up 36% YoY. If we look at this by division, domestic design is up 42% YoY, overseas design up 20% YoY and Construction Management is up by 365% YoY. The backlog stands at 453bn won, which is around two years work. We are expecting a 27% revenue growth next year backed by this new order growth.

### 35% upside, BUY

As earnings were overall in line, we are not making any changes to our earnings. However, by rolling forward our valuation base by one quarter to 2011, we are upping our target price by 6% from 12,000 won to 12,700 won. We value the company on 14x11CL PE. With signs of recovery in margin and new orders, we believe that the company can deliver 27% sales growth and 40% earnings growth next year. Trading on 10x11CL, the stock looks cheap. Maintain BUY with 35% upside.

### Financials

Year to 31 Dec	08A	09A	10CL	11CL	12CL
Revenue (bn won)	156	158	182	232	295
Net profit (bn won)	16	9	10	14	19
EPS (won)	1229	602	680	944	1295
CL/consensus (1) (EPS%)	-	-	82	79	88
EPS growth (% YoY)	(18.1)	(51.1)	13.0	38.8	37.2
PE (x)	7.7	15.7	13.9	10.0	7.3
Dividend yield (%)	3.4	2.1	2.1	2.6	3.2
FCF yield (%)	(6.0)	3.1	1.3	15.4	13.6
PB (x)	2.2	1.6	1.5	1.5	1.3
ROE (%)	30.8	15.0	16.1	17.7	19.4
Net debt/equity (%)	(4.4)	11.8	18.1	(17.6)	(30.0)

Source: CLSA Asia-Pacific Markets

Figure 1

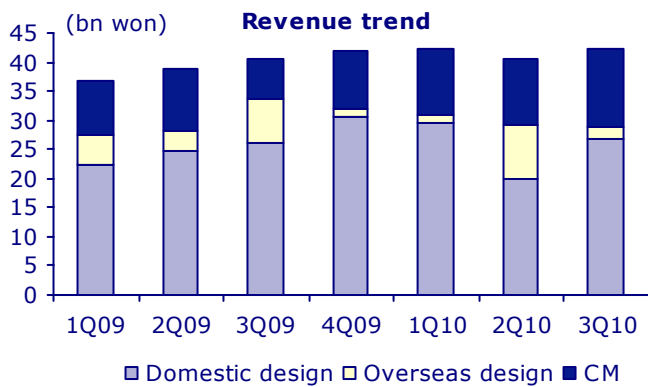
**3Q10 results summary**

(bn won)	3Q10	3Q09	YoY%	3Q10Cons vs Cons%	3Q10CL vs CL%
Sales	42.1	40.6	3.7	48.7 -13.5	46.7 -9.9
OP	4.5	4.2	7	5 -10.6	4.3 2.8
NP	3.9	3.5	11.5	4.4 -11	3.7 4.9

Source: CLSA Asia-Pacific Markets

Figure 2

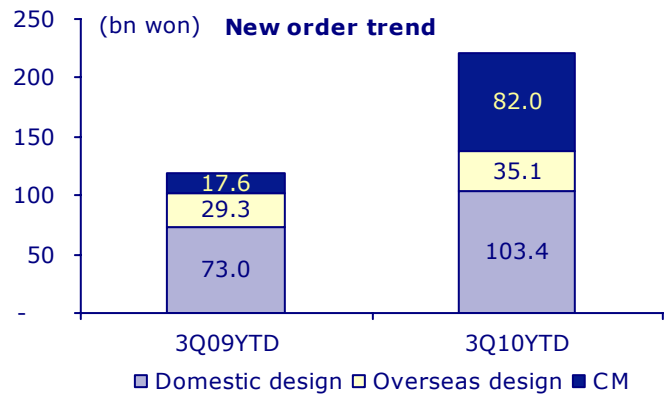
**Unexciting revenue trend**



Source: CLSA Asia-Pacific Markets

Figure 3

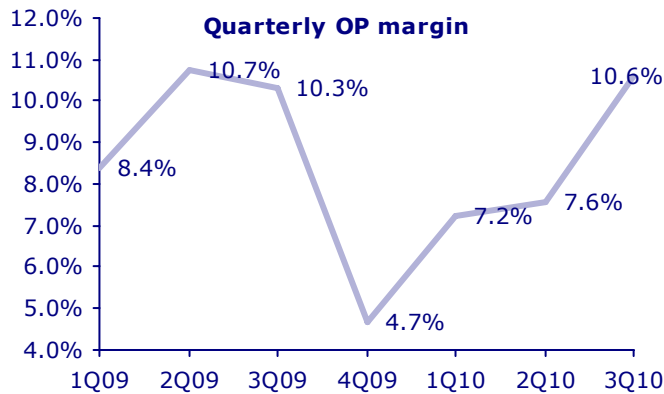
**New order up 36% YTD, yet to show in revenues**



Source: CLSA Asia-Pacific Markets

Figure 4

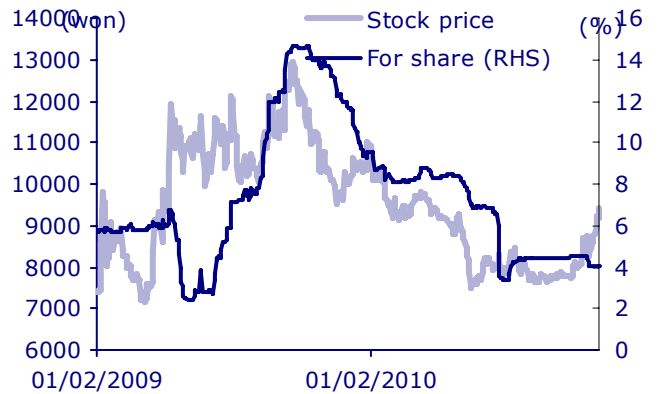
**OP margin recovering**



Source: CLSA Asia-Pacific Markets

Figure 5

**Share price and foreign holding**



Source: CLSA Asia-Pacific Markets

## Summary financials

Year to 31 December	2008A	2009A	2010CL	2011CL	2012CL
<b>Summary P&amp;L forecast (bn won)</b>					
<b>Revenue</b>	<b>156</b>	<b>158</b>	<b>182</b>	<b>232</b>	<b>295</b>
Op Ebitda	18	16	18	24	31
Op Ebit	16	13	15	21	27
Interest income	0	0	0	0	0
Interest expense	0	(1)	(1)	(1)	0
Other items	4	(1)	(1)	(2)	(2)
<b>Profit before tax</b>	<b>20</b>	<b>12</b>	<b>14</b>	<b>19</b>	<b>26</b>
Taxation	(5)	(3)	(3)	(5)	(6)
Minorities/Pref divs	0	0	0	0	0
<b>Net profit</b>	<b>16</b>	<b>9</b>	<b>10</b>	<b>14</b>	<b>19</b>
<b>Summary cashflow forecast (bn won)</b>					
<b>Operating profit</b>	<b>16</b>	<b>13</b>	<b>15</b>	<b>21</b>	<b>27</b>
Operating adjustments	0	0	0	0	0
Depreciation/amortisation	2	3	3	4	4
Working capital changes	(27)	(15)	(18)	(5)	(10)
Net interest/taxes/other	4	6	4	5	0
<b>Net operating cashflow</b>	<b>(4)</b>	<b>7</b>	<b>4</b>	<b>24</b>	<b>22</b>
Capital expenditure	(3)	(3)	(2)	(3)	(3)
<b>Free cashflow</b>	<b>(7)</b>	<b>4</b>	<b>2</b>	<b>22</b>	<b>19</b>
Acq/inv/disposals	7	(6)	(3)	(6)	0
Int, invt & associate div	(1)	(1)	(1)	0	0
<b>Net investing cashflow</b>	<b>3</b>	<b>(10)</b>	<b>(6)</b>	<b>(8)</b>	<b>(2)</b>
Increase in loans	4	15	0	0	0
Dividends	(3)	(4)	(3)	(3)	(4)
Net equity raised/other	(3)	(2)	0	0	0
<b>Net financing cashflow</b>	<b>(2)</b>	<b>9</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>
<b>Incr/(decr) in net cash</b>	<b>(4)</b>	<b>5</b>	<b>(5)</b>	<b>14</b>	<b>16</b>
Exch rate movements	0	0	0	0	0
<b>Opening cash</b>	<b>6</b>	<b>2</b>	<b>8</b>	<b>3</b>	<b>16</b>
<b>Closing cash</b>	<b>2</b>	<b>8</b>	<b>3</b>	<b>16</b>	<b>32</b>
<b>Summary balance sheet forecast (bn won)</b>					
Cash & equivalents	2	8	3	16	32
Debtors	44	60	80	93	119
Inventories	0	0	0	0	0
Other current assets	3	9	2	2	(1)
Fixed assets	10	10	10	12	13
Intangible assets	5	4	5	5	5
Other term assets	7	7	7	7	7
<b>Total assets</b>	<b>75</b>	<b>102</b>	<b>117</b>	<b>150</b>	<b>189</b>
Short-term debt	0	0	0	0	0
Creditors	0	0	0	0	0
Other current liabs	16	25	31	39	52
Long-term debt/CBs	0	15	15	0	0
Provisions/other LT liabs	2	3	3	18	30
Minorities/other equity	0	0	0	0	0
Shareholder funds	56	60	67	93	108
<b>Total liabs &amp; equity</b>	<b>75</b>	<b>102</b>	<b>117</b>	<b>150</b>	<b>189</b>
<b>Ratio analysis</b>					
Revenue growth (% YoY)	29.7	1.3	15.0	27.9	27.0
Ebitda growth (% YoY)	27.0	(11.4)	13.3	33.4	29.1
Ebitda margin (%)	11.7	10.2	10.1	10.5	10.7
Net profit margin (%)	10.1	5.5	5.6	6.1	6.6
Dividend payout (%)	26.0	33.2	29.4	26.5	23.2
Effective tax rate (%)	22.5	27.2	24.9	24.2	24.2
Ebitda/net int exp (x)	0.0	60.9	17.3	135.4	0.0
Net debt/equity (%)	(4.4)	11.8	18.1	(17.6)	(30.0)
ROE (%)	30.8	15.0	16.1	17.7	19.4
ROIC (%)	26.9	16.3	16.3	20.2	24.2
EVA@/IC (%)	16.3	5.7	5.7	9.6	13.6

Source: CLSA Asia-Pacific Markets

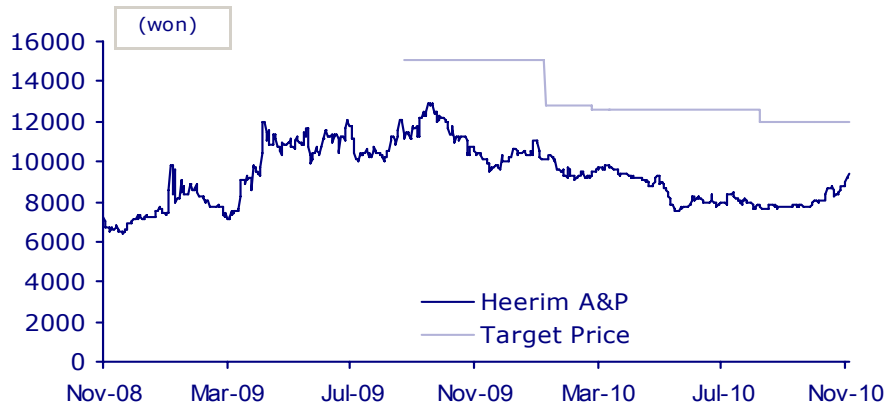
**Recommendation history - Heerim Architects & Planners 037440 KQ**

Date	Rec level	Closing price	Target
10 August 2010	BUY	7,840.00	12,000.00
26 February 2010	BUY	9,290.00	12,600.00
11 January 2010	BUY	10,100.00	12,800.00
27 August 2009	BUY	11,250.00	15,096.15

Source: CLSA Asia-Pacific Markets

Figure 6

**Target-price history**



Source: CLSA Asia-Pacific Markets

**Key to CLSA investment rankings:** BUY = Expected to outperform the local market by >10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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**Note: In the interests of timeliness, this document has not been edited.**

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