LEADING Research

Nexen Tire (002350 KS)

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Valuation not too appealing…

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Leading Traffic Light: Yellow

Nexen Tire is…

- ✓ 3rd largest Korean tire maker (24th globally)
- ✓ Strongest growth potential within the industry
- ✓ Expanding OE tire supply to secure future growth through enhancing brand awareness

Yellow light because:

- ➢ A 30% valuation premium to its competitors implies that the market's expectation for improved profitability had already been reflected in the share price

Growth potential:

- ➢ 2012F revenue is expected to increase by 26% yoy backed by capacity expansion
- ➢ Production capacity expected to reach 600mn units in 2018 – over 100% increase from 2011

Management and shareholder value:

- ➢ Proved management skill by quickly normalizing the company's business after the receivership and improved the company with aggressive investment
- ➢ Continuous capex investments result in a low dividend yield of 0.3%

Profitability:

- ➢ 2012E OP is expected to increase by 70% yoy
- ➢ Need to raise the ASP through increasing OE sales proportion

Valuation:

- ➢ Valuation premium to the market leader, Hankook Tire, is not appropriate
- ➢ Target price of W19,700 implies a upside potential of 10.7%

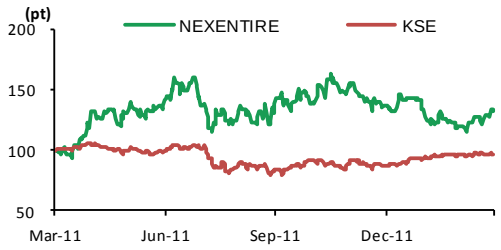
HOLD

Target Price (KRW)	**W19,700**
Current Price (KRW)	**W17,800**
Upside potential	**10.7%**

Key Data	**Mar 30, 2012**
Sector	Auto parts
Kosdaq	2,014.04
Market Cap. (Wbn)	1,689.6
Share Outstanding (m)	94.9
Foreign Ownership (%)	6.2
52 Week High (W)	22,200
52 Week Low (W)	12,700
60-d avg.turnover (Wbn)	12.3
Major Shareholders	**(%)**
Nexen and 2 others	64.1
NPS	7.1

Performance (%)	**1M**	**6M**	**12M**
Absolute	10.2	(5.3)	32.3
Relative	11.0	(19.1)	36.7

Relative Performance



CAVEAT EMPTOR!!! – Watch out for…

- ➢ The company may have a difficulty increasing the ASP even if raw material costs increase given sluggish economy
- ➢ May be exposed to relatively higher operating risk in recession due to its weaker brand awareness and lower revenue

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	PER (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	1,009.9	28.8	165.1	16.4	113.3	1,194	N/A	14.9	7.1	34.3	4.4
2010	1,148.6	13.7	136.6	11.9	107.2	1,129	(5.4)	15.8	9.4	24.7	3.5
2011	1,430.0	24.5	112.0	7.8	87.8	925	(18.1)	19.3	10.3	16.7	3.0
2012E	1,801.6	26.0	194.4	10.8	145.0	1,527	65.2	11.7	6.4	22.9	2.4
2013E	2,133.3	18.4	252.3	11.8	181.9	1,916	25.5	9.3	5.1	23.0	1.9
2014E	2,287.5	7.2	276.8	12.1	198.1	2,087	8.9	8.5	4.7	20.3	1.6

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Key check points

✓ **Strongest growth potential within tire industry**

Nexen Tire's production capacity is expected to increase by over 20% in 2012 as the new Changnyeong plant, which focuses on producing original equipment (OE) tire, becomes operational. Furthermore, the company is planning to double its capacity by 2018. In short term, the company's profit can decline as low margin OE tire sales proportion increases. However, enhancing the quality of products and brand awareness through increasing OE sales proportion is necessary for the company's long-term growth. The company is planning to increase its OE sales proportion up to 20% within 2~3 years from 14% in 2012 as Changnyeong plant becomes operational.

✓ **Lower raw material costs and higher ASP improve profitability**

Backed by lower labor cost and more efficient production compared to its global peers, Nexen Tire has been securing the highest margin within the industry along with Hankook Tire. The market expected tire industry to be very bullish in 2012, as raw material costs from end-2011 were to boost margins of tire companies. We predicted that Nexen's OPM would exceed 12% (4Q11 4.0%, 9.8% excluding one-off expense) as low raw material costs maximize the company's profit. However, it seems that the company's OPM will be the lowest in 2Q12E and begin to recover starting 3Q12E. As synthetic rubber prices increased much more than the market's expectation and fixed costs became very high due to the new plant in Changnyeong, the company's OPM will record 11% and slightly lower than 10% in 1Q12E and 2Q12E, respectively.

According to the quarterly consensus, Nexen Tire is planning to raise replacement equipment (RE) tire prices by 5% in 3Q12. We believed the company was not going to raise tire prices in 2012, but given the facts that rubber price increase was higher than expected and global companies are raising tire prices, the probability of Nexen Tire raising tire prices is rather high. We believe higher tire prices will increase 2012E OPM by 1.3% even with higher synthetic rubber prices. The company's 2012E operating profit will increase by 73% yoy, and OPM will record 10.9%. On the other hand, due to the new production plant and higher OE sales proportion, the company's margin is unlikely to exceed that of Hankook Tire in a short period of time. Hankook Tire has not announced the exact date it will raise the price, but we believe it will increase the price around the same time as Nexen Tire.

✓ **The effect of a temporary decline in global tire demand to domestic companies is minimal**

Global tire industry is expected to be sluggish in 2012 because EU financial crisis and lower demand for Replace Equipment (RE) in North America region will decrease global demands for tires. However, because domestic manufacturers had already secured cost competitiveness and expanded global market share despite the U.S financial crisis, the sluggish global tire industry should not pose a significant threat to domestic companies. On top of that, domestic tire manufacturers are expected to maintain rapid growth rate that exceeds the average growth rate of the rest of the industry. However, they need to keep expanding production capacities to meet increasing market demand in order to maintain the current growth rate.

✓ **Initiating coverage on Nexen Tire at Hold with a target price of W19,700**

Following the re-evaluation of tire industry, the company's share price soared by more than eleven times its lowest price in 2009. Considering the strongest growth potential within the industry and highest margin, we believe the company should continue to trade at a premium to the market and tire industry. We derived a target price of W19,700 by applying Hankook Tire's target PER of 12.9x to 2012F EPS of W1,527. We believe valuation premium to Hankook Tire is inappropriate as Nexten Tire's premium factors (stronger growth potential and higher UHPT/RE sales proportion) are offset by its discount factors (weaker brand awareness, lower ASP, and lower OPM).

Section 1-1: Valuation – Target price W19,700

Re-evaluation of tire industry

Nexen Tire traded at a discount to Korean market and automobile industry from 2008 to 2009. However, following the re-evaluation of tire industry, the company traded at a 63~114% premium to the market PER in 2011. Furthermore, the company's value surged by more than eleven times its lowest price in 2009 and traded at a premium to Hankook Tire for its strongest growth potential in the industry.

Share price has been surging for the past two weeks

Nexen Tire's share price reached its highest in 2011 but underwent a severe correction and declined by 26% by mid-March 2012 (Hankook Tire declined by 16% during the correction period). However, as the company's plan to raise the tire price was exposed, the share price increased by 8% over the past two weeks and exceeded the market's rate of return. The company is trading at a 11% premium to Hankook Tire (2012E PER).

Target price of W19,700 implies a 10.7% upside potential

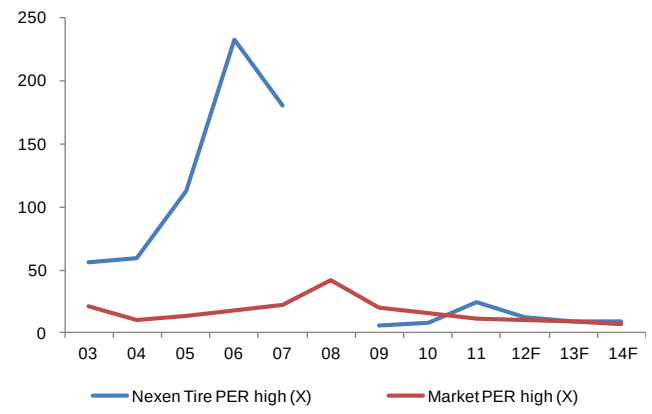
However, we believe Nexen Tire does not deserve a premium to Hankook Tire. Although the company has stronger growth potential and a higher UHPT/RE proportion than those of Hankook Tire, Hankook Tire's brand awareness and profitability are superior to those of Nexen Tire, thus, its strengths are offset by weaknesses. In addition, despite Nexen Tire's higher UHPT/RE, its ASP and profitability measures (OPM and EBITDA margin) are inferior to those of Hankook Tire. We are of the opinion that Nexen Tire does not have fundamental strengths (brand awareness and pricing power) that Hankook Tire has. Therefore we applied the same target PER (12.9x – a 27% premium to the market PER) we've used to valuate Hankook Tire's share price to the company's 2012E EPS and derived a fair target price of W19,700.

Exhibit 1. Nexen Tire Valuation VS. Market Valuation

	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Nexen Tire PER high (X)	53.1	55.7	59.1	112.9	232.7	179.9	N/A	6.0	8.5	24.0	12.9	9.3	8.5
Market PER high (X)	19.9	20.7	9.9	13.9	17.9	22.3	42.4	20.4	16.0	11.2	10.4	8.9	7.3
Premium/(Discount) to market (%)	**167.2**	**169.0**	**496.8**	**713.8**	**1,199.7**	**707.0**	**NA**	**(70.4)**	**(46.7)**	**114.4**	**24.7**	**4.4**	**17.3**
Nexen Tire PER low (X)	26.4	33.1	30.4	74.7	120.6	53.8	N/A	1.7	4.4	12.7	10.7	9.3	8.5
Market PER low (X)	9.9	10.2	5.7	7.2	11.0	10.9	16.2	9.8	9.6	7.8	9.3	8.9	7.3
Premium/(Discount) to market (%)	**166.8**	**223.3**	**435.2**	**934.5**	**997.1**	**394.3**	**NA**	**(83.0)**	**(54.6)**	**62.9**	**15.7**	**4.4**	**17.3**

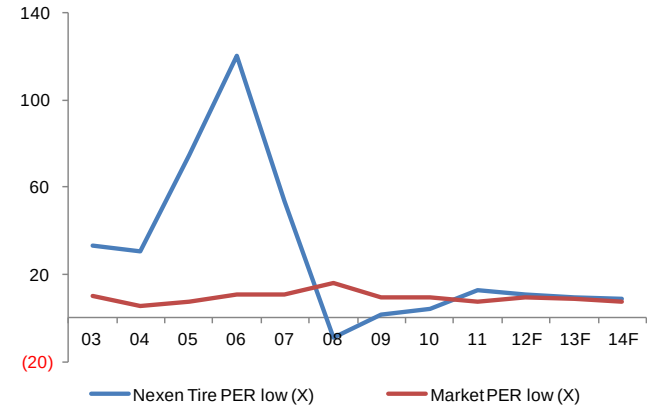
Source: FnGuide, Leading Research Center

Exhibit 2. Nexen Tire yr-hi PER vs. Market



Source: Bloomberg, Leading Research Center

Exhibit 3. Nexen Tire yr-lo PER vs. Market



Source: Bloomberg, Leading Research Center

Section 1-2: Valuation – Peer valuation

Trading at a premium to global tire industry average

Backed by increased global sales, Nexen Tire and Hankook Tire are running at their full capacities, yielding the highest margins within the industry. Furthermore, the company has been posting the highest growth rate among global tire companies with its large-scale capacity expansion. However, considering the fact that the company is trading at a premium to the tire industry, we believe the company's strong growth potential and high margin (OPM and ROE) are already reflected in the price.

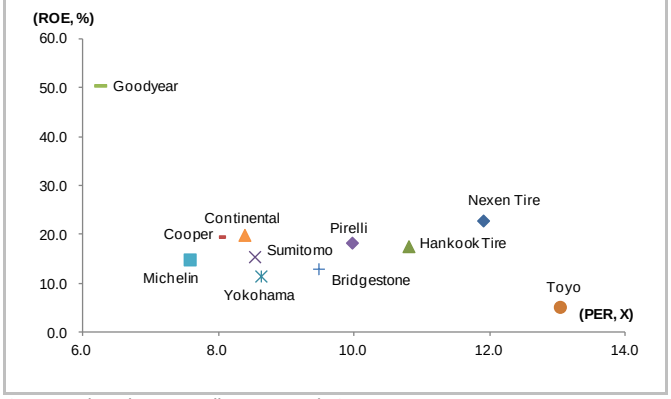
Exhibit 4. Peer valuation

Company	Ticker	Ctry.	Mkt Cap. (mn US$)	Revenue (mn US$) 10	11P	12F	13F	OPM (%) 10	11P	12F	13F
Nexen	002350 KS	KOR	1,520	992	1,292	1,585	1,876	11.9	7.8	10.8	11.8
Hankook	000240 KS	KOR	5,767	5,030	5,863	6,079	6,292	11.5	8.9	12.2	12.4
Sumitomo	5110 JT	JPN	3,541	6,906	8,503	8,478	8,848	7.9	8.0	9.1	9.2
Yokohama	5101 JT	JPN	2,482	5,029	6,082	7,172	7,519	4.6	5.7	6.4	6.5
Toyo	5105 JT	JPN	719	3,103	3,441	3,968	4,217	3.0	4.1	3.9	4.3
Bridgestone	5108 JT	JPN	19,837	32,690	37,991	39,480	41,351	5.8	6.3	8.3	8.5
Cooper	CTB US	USA	964	3,361	3,927	4,283	4,486	6.2	4.2	5.3	6.0
Goodyear	GT US	USA	2,803	18,832	22,767	23,596	24,790	4.0	4.9	5.3	6.0
Pirelli	PC IM	ITA	5,774	6,432	7,874	8,702	9,524	8.4	10.8	12.3	13.4
Michelin	ML FP	FRA	13,265	23,734	28,849	28,942	30,782	9.8	9.4	9.9	10.1
Continental	CON GR	GER	18,839	34,554	42,475	42,914	45,756	7.9	8.7	9.1	9.8

Company	P/E (X) 10	11P	12F	13F	EV/EBITDA (X) 10	11P	12F	13F	P/B (X) 10	11P	12F	13F	ROE (%) 10	11P	12F	13F
Nexen	9.7	21.1	11.9	9.5	6.4	15.3	6.5	5.2	1.7	3.1	2.5	2.0	24.7	16.7	22.9	23.0
Hankook	10.5	18.5	10.8	10.0	5.6	9.0	5.3	5.0	1.9	2.0	1.8	1.5	19.0	11.8	17.6	16.2
Sumitomo	10.4	8.5	8.5	8.0	5.3	5.6	5.3	4.8	1.2	1.2	1.3	1.1	12.3	16.4	15.5	14.8
Yokohama	12.8	9.7	8.6	8.4	6.0	4.8	5.0	4.7	0.9	0.8	1.1	1.0	7.6	9.2	11.5	11.5
Toyo	18.0	99.5	13.0	8.7	5.0	4.9	4.9	4.2	0.7	0.7	0.7	0.7	4.4	1.8	5.2	8.9
Bridgestone	12.4	13.3	9.5	8.8	4.8	5.2	4.6	4.1	1.1	1.3	1.2	1.1	8.9	9.8	13.0	12.3
Cooper	11.4	12.1	8.0	6.6	5.0	4.3	3.6	3.1	3.2	1.5	1.3	1.1	32.2	14.2	19.6	21.8
Goodyear		7.6	6.3	4.5	4.6	4.0	3.6	3.2	4.5	13.9	2.5	1.6	(9.7)	108.8	50.5	45.0
Pirelli	12.0	9.8	10.0	8.2	5.8	5.8	5.2	4.3	1.5	1.5	1.7	1.5	9.5	9.5	18.3	19.7
Michelin	7.6	5.6	7.6	6.9	4.5	3.6	3.8	3.5	1.3	1.0	1.1	1.0	16.9	18.5	14.9	14.6
Continental	20.5	7.7	8.4	7.1	5.6	4.3	4.6	4.0	2.0	1.3	1.7	1.5	12.0	19.7	19.9	20.4

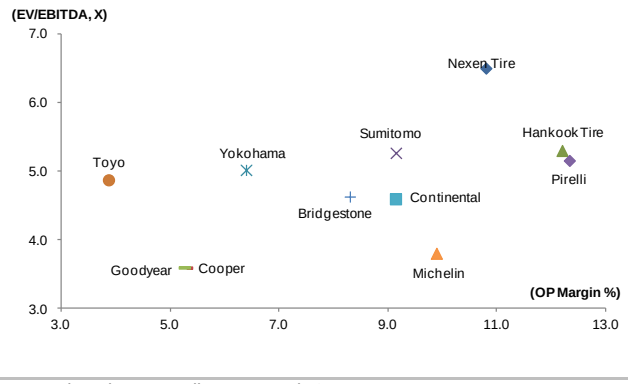
Share price on March 29, 2012
Source: Bloomberg, Leading Research Center

Exhibit 5. Peer group PER vs. ROE



Source: Bloomberg, Leading Research Center

Exhibit 6. Peer group EV/EBITDA vs. OPM



Source: Bloomberg, Leading Research Center

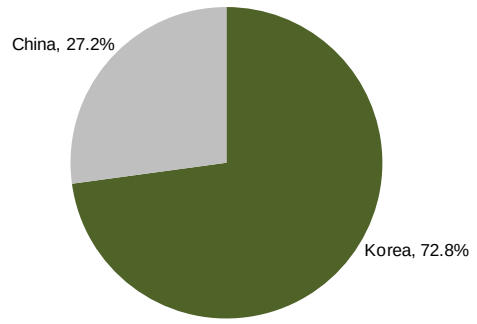
Section 2: Company snapshot

24th largest tire manufacturer worldwide

Fastest growing tire manufacturer worldwide

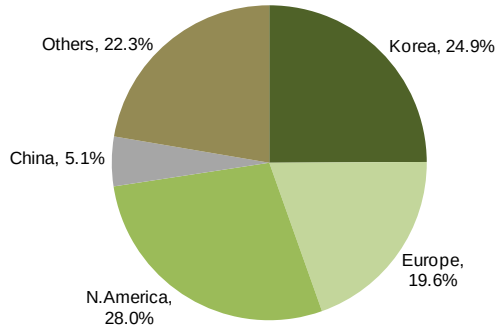
Nexen Tire, which has the 24th highest 2010 revenue worldwide, is the third largest domestic tire manufacturer following Hankook Tire and Kumho Tire. However, the company is the fastest growing tire company worldwide and has a plan to boost its production capacity to 60M (more than 100% increase from 2011 capacity) units per annum by 2018 with large-scale capacity expansion. Changnyeong plant, which became operational in 2012, and Yangsan plant will produce 73% of the total capacity while Qingdao (China) plant produces 27% of the total capacity.

Exhibit 7. Nexen Tire production capacity by region (2012)



Source: Nexen Tire

Exhibit 8. Nexen Tire revenue by region (2011)



Source: Nexen Tire

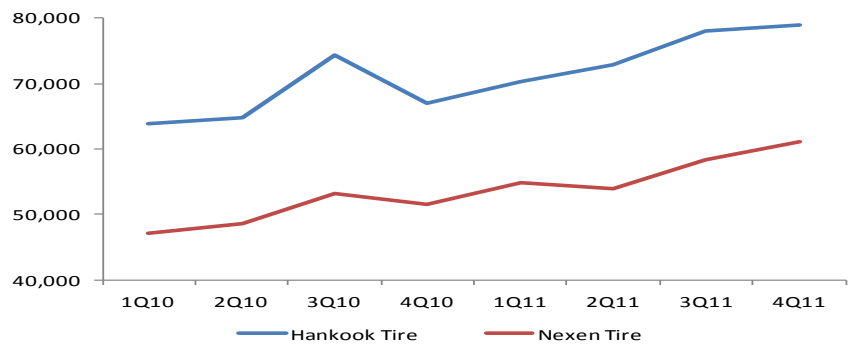
Relatively slow entry into China compared to domestic competitors

The company's overseas production proportion is low compared to those of Hankook Tire and Kumho Tire, which exceed 50%. While domestic competitors began overseas production from mid 1990s, Nexen Tire did not have the ability to invest in overseas plants as the company was under legal management due to the financial crisis and was eventually acquired by Nexen. Having relatively weaker brand awareness due to entering Chinese Market later than its competitors, the company's China sales only account for 5% (Hankook Tire – 19%) of the total overseas sales.

Strength: High UHPT sales proportion
Weakness: Lower ASP than those of its competitors

The company's capex spending focused on expanding its UHPT production capacity for the past several years. Therefore, the company's high margin (20% higher than regular tires) UHPT sales proportion accounts for 31% while Hankook Tire's UHPT sales proportion is only at 22%. However, due to lower brand awareness and lack of scale of economies, its overall ASP and OPM are lower than those of Hankook Tire despite its superior product mix.

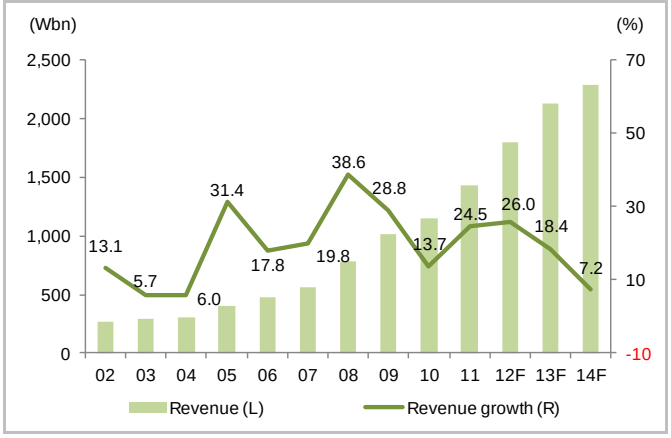
Exhibit 9. Hankook Tire ASP vs Nexen Tire ASP (Won/Unit)



Source: Hankook Tire, Nexen Tire

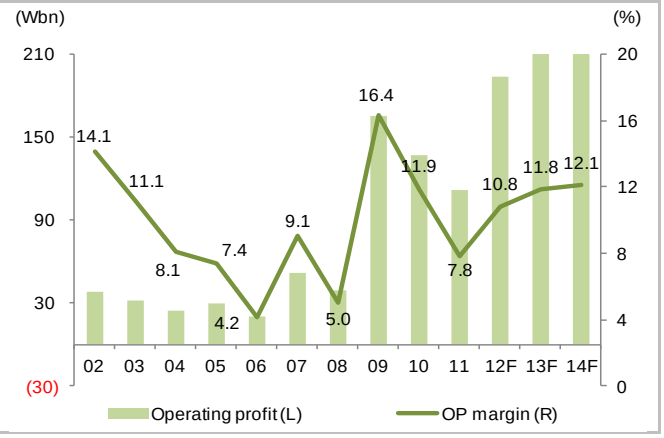
Section 3: Facts and Figures

Exhibit 10. Revenue and growth trend



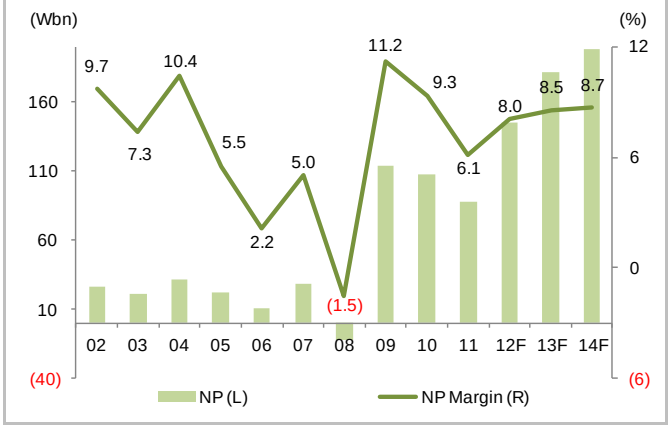
Source: Nexen Tire, Leading Research Center

Exhibit 11. Operating profit and OPM trend



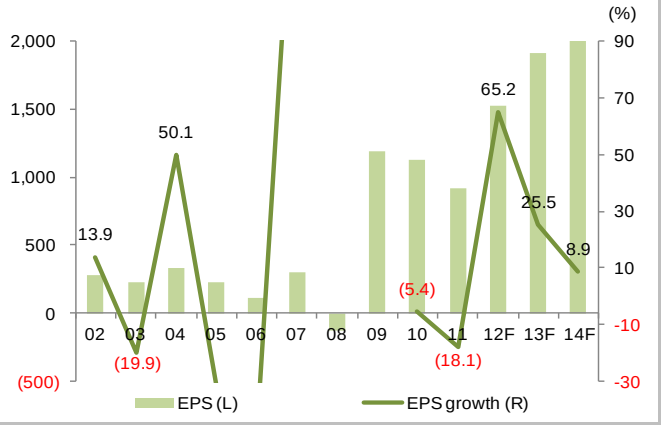
Source: Nexen Tire, Leading Research Center

Exhibit 12. Net profit and NPM trend



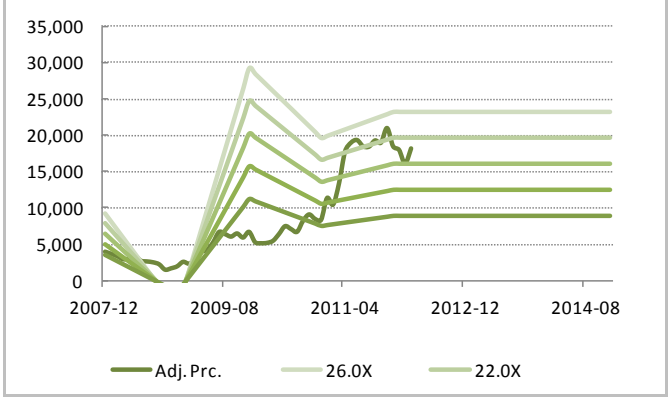
Source: Nexen Tire, Leading Research Center

Exhibit 13. EPS and EPS growth trend



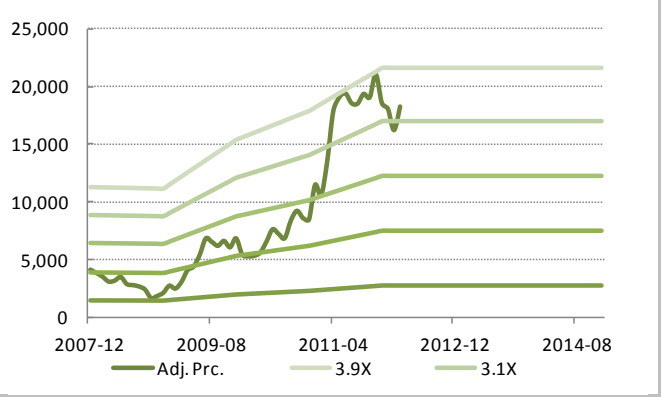
Source: Nexen Tire, Leading Research Center

Exhibit 14. PER Band



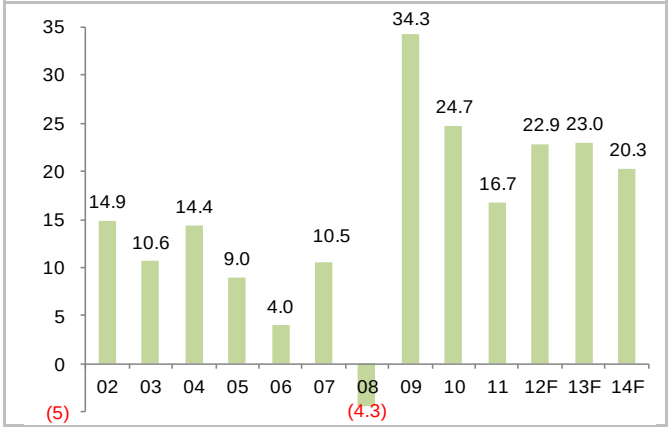
Source: FnGuide, Leading Research Center

Exhibit 15. PBR Band



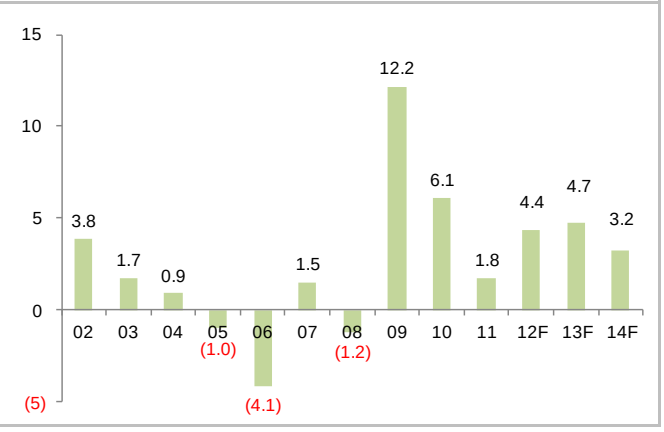
Source: FnGuide, Leading Research Center

Exhibit 16. ROE (%)



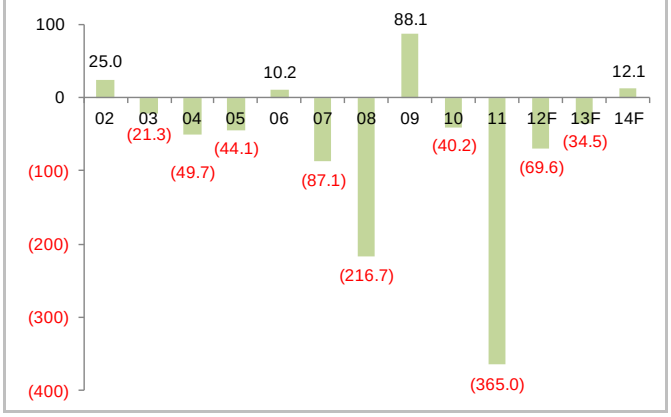
Source: Nexen Tire, Leading Research Center

Exhibit 17. ROIC less WACC (%)



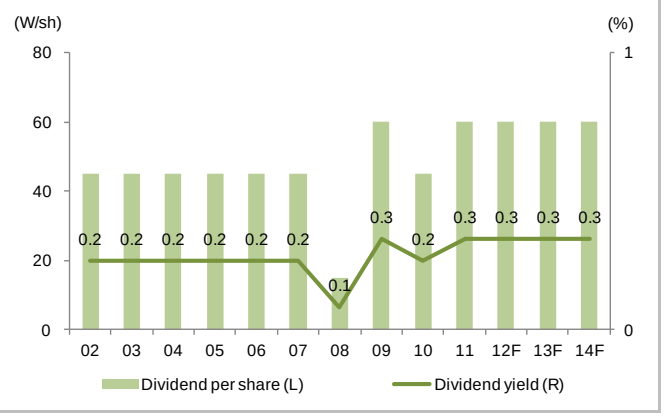
Source: Nexen Tire, Leading Research Center

Exhibit 18. Free cashflow trend (Wbn)



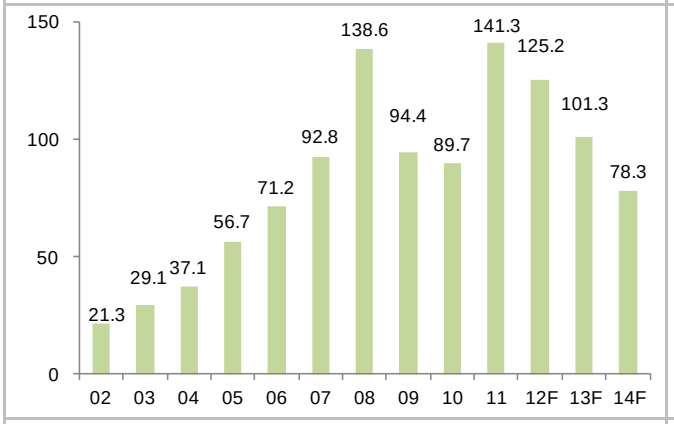
Source: Nexen Tire, Leading Research Center

Exhibit 19. Dividend per share and yield trend



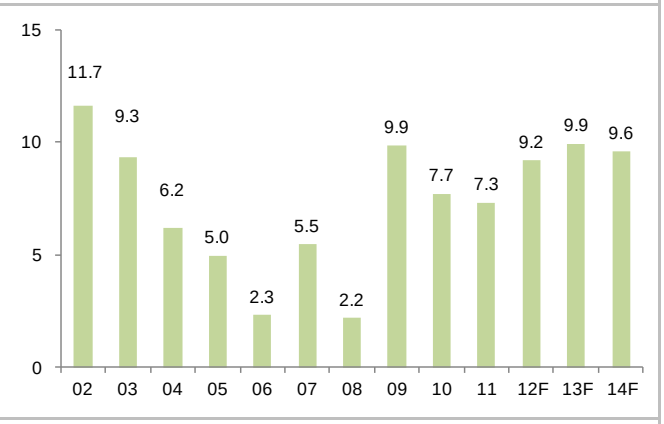
Source: Nexen Tire, Leading Research Center

Exhibit 20. Net debt to equity ratio (%)



Source: Nexen Tire, Leading Research Center

Exhibit 21. Interest coverage (x)



Source: Nexen Tire, Leading Research Center

Section 4: What is the management philosophy?

The chairman focusing on transparent management and aggressive investments

Byeong-Joong Kang, the chairman of Nexen Tire has spent 40 years in tire industry since he acquired Hung-A Tire (currently Nexen Corporation) in 1973. Influenced by Kyu-Sang Lee (the president of Hung-A Tire)'s advice, he acquired Nexen Tire in 1999 although the board of directors did not agree with the idea. He focused on stabilizing the company's financial structure and business at beginning. He focused on capacity expansion in 2004 and increased the company's revenue by five times in 2011. He believes transparent management and aggressive investment are keys to a successful business.

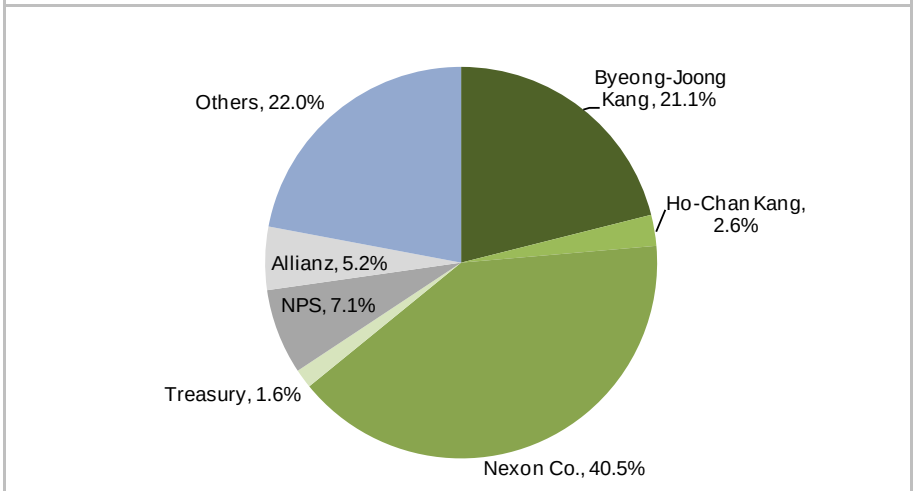
Management specialist, Hyun-Bong Lee

Vice Chairman & CEO, Hyun-Bong Lee, who was in charge of home appliances department at Samsung Electronics, has been working at Nexen Tire since 2010. He is currently responsible for managing general businesses at the company.

64.1% Byeong-Joong Kang and affiliates own a 64.1% stake

Byeong-Joong Kang and his son, Ho-Chan Kang (president), and Nexen Co. have a total of 64.1% of Nexen Tire's shares. The largest shareholder of Nexen Tire, Nexen Corporation, has acquired 8.42mn shares of Nexen Tire (a 8.87% stake) at W19,116 per share through recent tender offer. Instead of paying cash out to shareholders, Nexen Corporation obtained Nexen Tire's shares through stock exchange (1 share of Nexen Tire to .286 share of Nexon Corporation). While institutions and private investors did not actively participate in the tender offer, the president, Ho-Joong Kang, obtained 7.8mn shares of Nexen Tire for 2.23mn shares of Nexen Coporation. After the tender offer, Nexen Corporation's stake increased from 31.6% to 40.5%. As Ho-Joong Kang's stake in Nexon Corporation increased to 50.5% in the process, management rights were succeeded. However, the current management is expected to remain unchanged.

Exhibit 22. Shareholders (%)



Source: Nexen Tire

Exhibit 23. CEO profile

Chairman Byeong-Joong Kang		Vice chairman Hyun-Bong Lee	
Period	**Career**	**Period**	**Career**
1999	Chairman, Nexen Tire	2010	Vice chairman & CEO, Nexen Tire
1994	Chairman Busan CCI	2005	President SEC (Home appliances)
1974	President Hung-A	1976	Joined Samsung Electronics (SEC)
	Education		**Education**
1966	B.S Donga University (Law)		B.S Seoul National University (Business)

Source: Nexen Tire

Section 5: Operations overview

Tire demand forecast

Global tire demand is expected to record a stable growth rate of 3.5~4.0% in long term

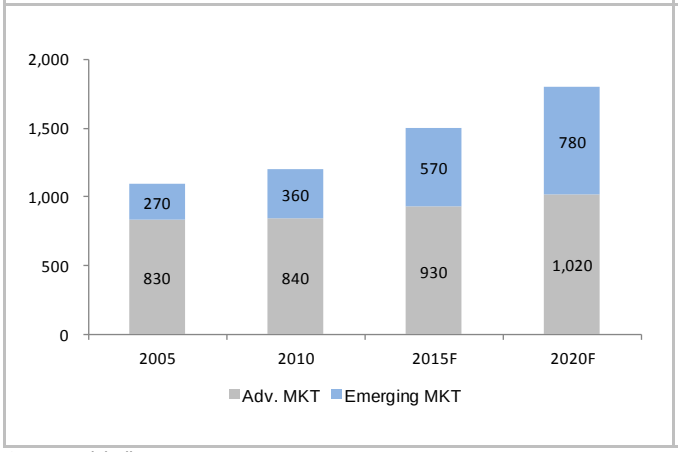
Global tire industry is expected to grow at a CAGR of 3.5~4.0% in long term. According to Hankook Tire's forecast, 2011 global tire demand increased by 2.5% due to lower OE tire demands in European and emerging markets. Nexen Tire's growth rate is expected to improve and record 4.3% in 2012F, but we anticipate that the rate will gradually decline to 3.0% by 2016.

Exhibit 24. Global tire industry growth forecast

(%)	2011	2012	2013	2014	2015	2016	CAGR
OE Tire	**1.9**	**3.2**	**3.3**	**3.3**	**3.3**	**3.1**	***3.0***
N.America	8.1	2.3	2.3	2.3	2.3	1.5	***3.1***
Europe	(3.7)	2.0	2.0	2.0	2.0	2.0	***1.5***
Emerging	(4.3)	5.8	5.6	5.5	5.4	5.3	***3.8***
RE Tire	**2.7**	**4.8**	**4.1**	**3.6**	**3.3**	**2.9**	***3.7***
N.America	2.1	1.8	1.2	1.1	0.7	0.5	***1.1***
Europe	4.6	5.1	3.6	2.7	2.6	1.4	***3.1***
Emerging	6.3	8.5	8.5	8.2	6.5	6.8	***7.7***
Global	**2.5**	**4.3**	**3.9**	**3.5**	**3.3**	**3.0**	***3.5***
N.America	3.9	2.0	1.5	1.5	1.2	0.8	***1.7***
Europe	2.1	4.2	3.1	2.5	2.4	1.6	***2.6***
Emerging	3.1	7.7	7.6	7.4	6.2	6.4	***6.5***

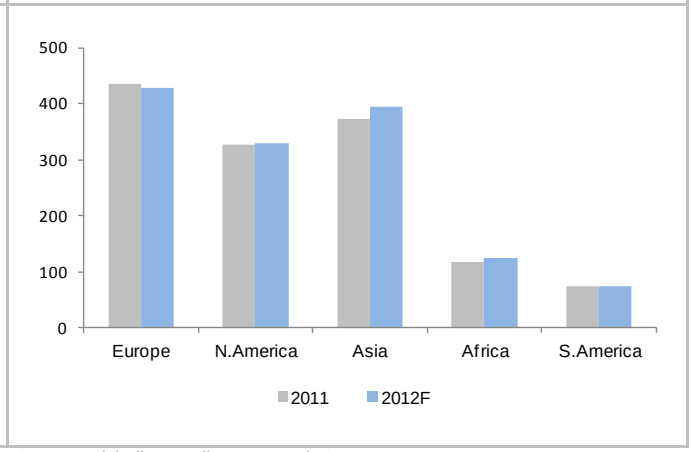
Source: Hankook Tire, Leading Research Center

Exhibit 25. Global tire demand forecast (mn units)



Source: Michelin

Exhibit 26. Tire demand forecast by region (mn units)



Source: Michelin, Leading Research Center
Japan excluded for Asia

Domestic market summary

High growth rates that exceed the average growth rate of the market

Sluggish global tire market is not going to limit the growth of domestic tire manufacturers. Cost competitiveness enabled domestic companies to record higher-than-average growth rate despite fluctuating demands caused by the U.S financial crisis. We believe domestic companies will continue to expand their market share in the future.

Capacity expansion required to meet increasing Asian tire demand

Domestic companies need to expand production capacity to meet increasing global market demand for long-term growth. Despite continuous capacity expansion, Hankook Tire's and Nexen Tire's sales growth rates did not exceed the market average growth rate due to lower demand caused by the financial crisis. However, starting 2011, they both recorded sales growth rates that exceed the average market growth rate.

Exhibit 27. Global tire industry market share in terms of revenue

(%)	2005	2006	2007	2008	2009	2010
Big 3	52.5	50.4	48.4	46.1	43.7	42.0
Continental	7.1	8.1	9.1	10.1	5.1	5.3
Pirelli	4.4	4.4	4.4	4.3	4.4	4.2
Sumitomo	3.5	3.3	3.2	3.5	3.6	3.8
Yokohama	2.9	2.8	2.9	2.8	3.1	3.1
Korean Co.	4.7	5.5	5.3	5.1	5.5	5.7
Hankook	2.4	2.8	2.7	2.6	2.9	3.0
Kumho	1.9	2.2	2.0	1.9	1.8	2.0
Nexen	0.5	0.5	0.6	0.6	0.7	0.8
Others	24.8	25.5	26.8	28.1	34.6	35.8

Source: Tire Business

Exhibit 28. The North America region OE Tire market share (2010)

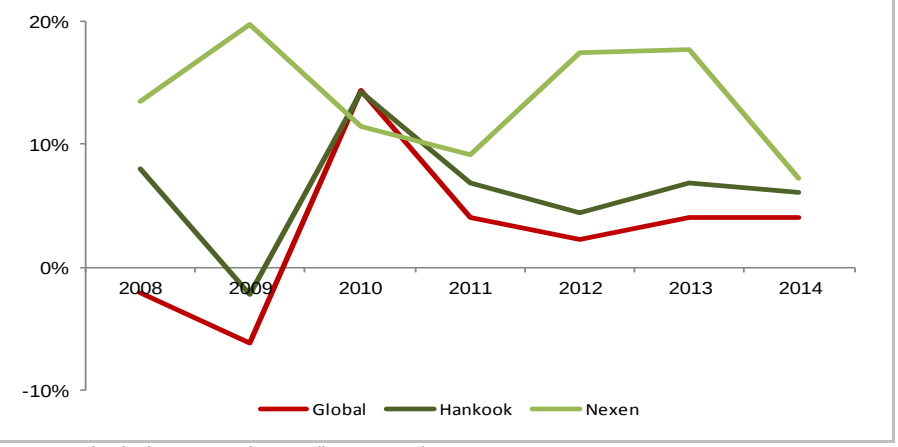
Total market	(%)	Ford	(%)	GM	(%)	Hyundai/Kia	(%)
Goodyear	34.0	Michelin	33.0	Goodyear	34.0	Hankook Tire	30.0
Michelin	24.0	Continental	25.0	Bridgestone	24.0	Bridgestone	7.0
Bridgestone	17.0	Hankook Tire	16.0	Continental	22.0	Others	63.0
Continental	12.5	Goodyear	12.0	Michelin	10.0		
Hankook Tire	5.0	Pirelli	12.0	Pirelli	5.0		
Pirelli	3.5	Kumho Tire	3.0	Kumho Tire	4.0		
Yokohama	1.0						
Kumho Tire	1.0						
Others	1.0						

Source: Tire Business

Domestic companies continue to expand global market share

Even though the global market share of global companies only increased by 1%, Hankook Tire and Nexen Tire boosted their revenues by 100~200%. When tire demand declined due to the financial crisis, their sales increased by more than 20%. We believe Nexen Tire and Hankook Tire will continue to expand the global market share with their cost competitiveness and high product quality. Other companies' market shares increased dramatically, but we believe such increase was caused by increasing demand in emerging markets rather than enhanced competitiveness from new products.

Exhibit 29. Global tire demand & sales growth trends of domestic companies



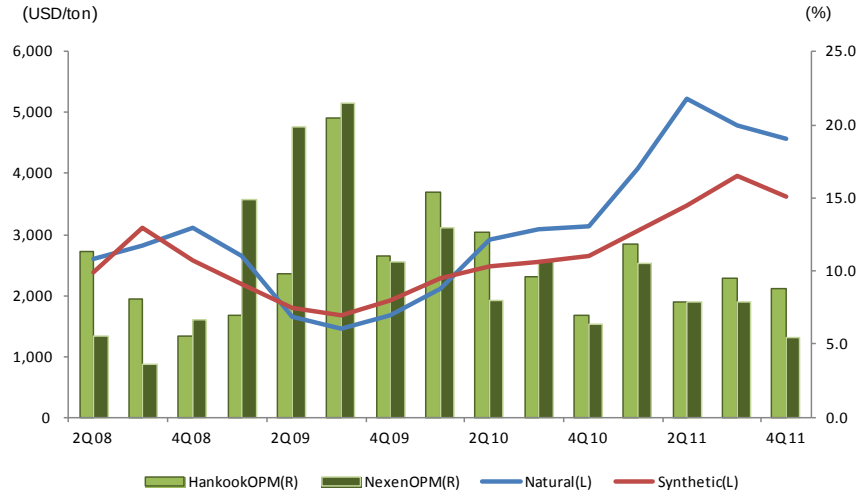
Source: Hankook Tire, Nexen Tire, Leading Research Center

Raw material costs trend

Raw material costs expected to decline in 2012F

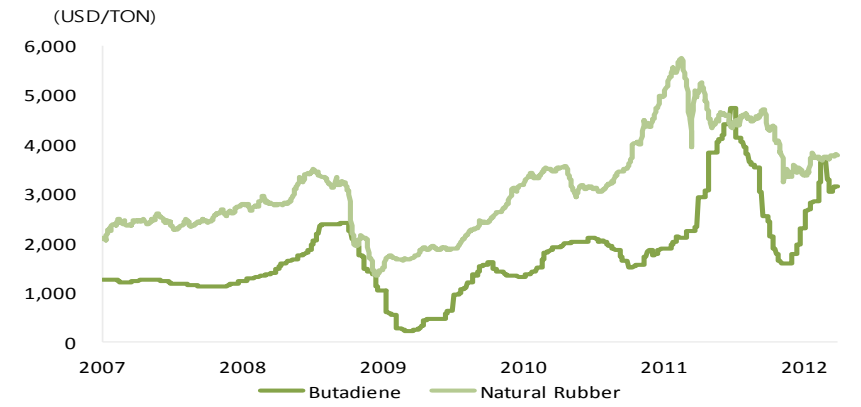
Raw material costs account for 55~60% of the company's revenue. In detail, costs of natural/synthetic rubber which account for 50% of the profit, decides the company's margin. Generally, natural rubber price is reflected in the ASP 4~5months after the purchase while synthetic rubber price is reflected 1~2 months after. The market predicts that 2012 average synthetic rubber price is expected to increase by a small amount while the natural rubber price is expected to decline.

Exhibit 30. Raw material costs and domestic companies' OPM trend



Source: Bloomberg, Hankook Tire, Nexen Tire
2011 (IFRS consolidated), 2008~2010 (non-consolidated)

Exhibit 31. Raw material costs trend



Source: Datastream

Summary of financials

Income statement

(Wbn)	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Revenue	**272.1**	**287.6**	**304.9**	**400.6**	**472.1**	**565.7**	**784.1**	**1,009.9**	**1,148.6**	**1,430.0**	**1,801.6**	**2,133.3**	**2,287.5**
% chg yoy	16.5	5.7	6.0	31.4	17.8	19.8	38.6	28.8	13.7	24.5	26.0	18.4	7.2
COGS	193.4	207.1	220.0	290.9	358.5	397.9	590.8	669.0	801.2	1,085.7	1,351.6	1,614.7	1,732.0
Gross profit	**78.7**	**80.5**	**84.9**	**109.7**	**113.6**	**167.8**	**193.4**	**340.9**	**347.4**	**344.3**	**450.0**	**518.6**	**555.5**
GP margin (%)	28.9	28.0	27.8	27.4	24.1	29.7	24.7	33.8	30.2	24.1	25.0	24.3	24.3
SG&A	40.2	48.5	60.2	80.0	93.9	116.5	153.9	175.8	143.3	165.3	**179.9**	**187.2**	**195.5**
Adjusted OP	**38.5**	**32.0**	**24.6**	**29.7**	**19.7**	**51.3**	**39.5**	**165.1**	**136.6**	**112.0**	**194.4**	**252.3**	**276.8**
Adj. OP margin (%)	14.1	11.1	8.1	7.4	4.2	9.1	5.0	16.4	11.9	7.8	10.8	11.8	12.1
Net other incomes	1.3	0.8	4.1	5.2	5.2	2.9	(55.5)	(1.6)	(3.7)	2.3	2.8	(5.3)	(7.5)
Reported OP	**38.5**	**32.0**	**24.6**	**29.7**	**19.7**	**51.3**	**39.5**	**165.1**	**132.9**	**114.3**	**197.2**	**247.0**	**269.3**
Net equity method gains	0.0	0.1	(0.7)	(0.5)	(0.9)	(1.1)	(1.6)	0.0	1.5	0.3	0.0	0.0	0.0
Interest incomes	0.5	0.7	0.7	0.6	0.9	1.5	35.6	7.2	27.4	41.9	31.7	18.9	14.6
Interest expenses	3.7	4.4	4.0	6.8	10.8	14.1	27.1	27.1	31.0	43.4	51.0	42.7	40.8
Profit before tax	36.5	29.1	24.7	28.2	14.1	40.3	(9.1)	140.3	130.9	113.1	177.9	223.2	243.1
Tax	10.2	8.0	(7.0)	6.3	3.9	12.0	3.0	26.9	23.7	25.4	32.9	41.3	45.0
Tax rate (%)	0.3	0.3	(0.3)	0.2	0.3	0.3	(0.3)	0.2	0.2	0.2	0.2	0.2	0.2
Net profit	**26.4**	**21.1**	**31.7**	**21.9**	**10.2**	**28.2**	**(12.1)**	**113.3**	**107.2**	**87.8**	**145.0**	**181.9**	**198.1**
Controlling	26.4	21.1	31.7	21.9	10.2	28.2	(12.1)	113.3	107.2	87.8	145.0	181.9	198.1
Non-controlling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive inc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.6)	(0.3)	0.0	0.0	0.0
Total comprehensive	26.4	21.1	31.7	21.9	10.2	28.2	(12.1)	113.3	106.4	86.2	145.0	181.9	198.1

Balance sheet

(Wbn)	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Current Assets	**71.1**	**80.8**	**77.6**	**95.5**	**131.2**	**179.0**	**337.7**	**398.2**	**491.3**	**731.4**	**835.7**	**909.5**	**970.3**
Cash and equivalents	10.7	13.5	10.7	11.0	16.0	26.8	46.4	66.8	77.6	92.6	107.9	86.8	103.7
Marketable securities	1.1	1.1	4.1	4.6	5.1	6.8	57.3	67.7	36.3	42.6	40.0	35.0	35.0
A/R	26.8	29.6	18.5	32.4	45.9	65.4	91.7	96.7	151.4	271.1	306.3	362.7	388.9
Inventory	30.3	31.3	39.4	43.6	60.6	73.5	126.5	135.2	184.8	276.0	337.9	379.5	398.4
Other current assets	2.2	5.3	4.9	3.9	3.6	6.4	15.8	31.8	41.1	49.1	43.6	45.6	44.3
Non-current Assets	**238.9**	**255.9**	**356.4**	**409.9**	**431.9**	**533.5**	**661.0**	**638.2**	**767.6**	**1,170.8**	**1,305.4**	**1,427.1**	**1,541.8**
Tangible Assets	185.5	206.7	296.9	351.2	361.8	476.9	600.6	573.0	678.8	1,083.7	1,212.4	1,332.1	1,446.9
LT financial assets	35.2	1.2	2.2	3.2	15.2	2.8	1.5	15.9	43.1	41.0	46.0	47.0	45.0
Inv in related co's	0.0	32.0	30.4	31.1	29.7	28.0	28.2	0.0	1.4	1.7	1.8	2.0	2.0
Other non-current asset	18.2	16.0	27.0	24.4	25.1	25.8	30.8	49.3	44.3	44.5	45.2	46.0	47.9
Non-current Assets	**310.0**	**336.7**	**434.0**	**505.4**	**563.0**	**712.5**	**998.7**	**1,036.4**	**1,258.9**	**1,902.2**	**2,141.1**	**2,336.6**	**2,512.0**
Current Liabilities	**65.3**	**76.9**	**143.6**	**113.8**	**130.5**	**276.8**	**369.2**	**347.3**	**472.8**	**754.3**	**703.8**	**647.4**	**653.3**
Account payables	26.3	17.7	25.4	25.7	28.0	32.4	126.6	47.2	56.8	70.3	94.6	113.0	121.2
ST int bear debt	14.4	37.0	63.7	41.3	58.7	174.9	186.2	241.4	310.0	437.2	387.6	299.2	290.3
Other current liabs	24.6	22.2	54.5	46.9	43.8	69.5	56.5	58.7	106.1	246.8	221.6	235.2	241.8
Non-current Liabilities	**54.5**	**53.2**	**56.8**	**140.6**	**175.9**	**156.9**	**351.4**	**306.1**	**302.7**	**582.9**	**733.3**	**809.3**	**786.7**
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT int bear debt	37.8	37.8	37.7	116.6	145.2	117.4	302.8	254.6	237.7	496.4	642.0	714.2	687.8
Other LT liabs	16.7	15.4	19.0	24.0	30.7	39.5	48.7	51.6	65.0	86.5	91.3	95.1	98.9
Total liabilities	**119.8**	**130.1**	**200.3**	**254.4**	**306.4**	**433.8**	**720.7**	**653.4**	**775.5**	**1,337.2**	**1,437.1**	**1,456.7**	**1,440.1**
Paid-in capital	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7
Capital surplus	30.8	30.8	30.8	30.8	30.8	30.8	30.8	5.5	5.5	5.5	5.5	5.5	5.5
Other comprehensive	0.0	(0.0)	(0.1)	(0.0)	0.0	1.3	17.9	14.1	18.0	26.9	26.9	26.9	26.9
Others	(0.0)	0.0	0.0	0.0	(0.0)	(3.0)	(3.0)	22.3	22.3	22.3	22.3	22.3	22.3
Retained earnings	106.6	123.1	150.2	167.5	173.1	196.8	179.5	288.2	384.8	457.6	596.6	772.4	964.5
Non-controlling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**190.2**	**206.6**	**233.7**	**251.0**	**256.6**	**278.7**	**278.0**	**382.9**	**483.3**	**565.0**	**704.0**	**879.9**	**1,072.0**

Free cashflow analysis

(Wbn)	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Net profit	**26.4**	**21.1**	**31.7**	**21.9**	**10.2**	**28.2**	**(12.1)**	**113.3**	**107.2**	**87.8**	**145.0**	**181.9**	**198.1**
Add non-cash expenses	**20.7**	**22.8**	**26.1**	**39.9**	**0.0**	**59.2**	**92.1**	**101.6**	**94.1**	**103.7**	**73.1**	**59.7**	**60.9**
Depreciation	14.9	15.9	19.6	31.8	0.0	42.8	61.1	73.7	43.1	52.2	71.3	80.3	85.2
Allowance for reserves	5.1	5.6	6.8	8.4	0.0	11.3	12.0	12.2	12.1	13.4	14.0	14.8	15.0
Net FX gains	(0.0)	(0.2)	(0.1)	(0.0)	0.0	(0.9)	(42.3)	(1.8)	(0.9)	0.8	(27.5)	(5.7)	(3.6)
Net eq method gains	0.0	0.1	(0.7)	(0.5)	0.0	(1.1)	(1.6)	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.6	1.0	(1.4)	(1.1)	0.0	2.8	(26.2)	13.4	37.6	38.7	39.8	41.2	43.0
Add. Chng. in OP asset	**(3.6)**	**(24.6)**	**2.7**	**(18.3)**	**0.0**	**(19.3)**	**(22.1)**	**(1.4)**	**(91.0)**	**(205.7)**	**(87.7)**	**(76.0)**	**(46.9)**
Investment in WC	6.4	12.4	(10.7)	17.7	28.3	28.0	(14.9)	93.1	94.7	197.4	72.7	79.5	36.9
Others	(2.8)	12.2	8.0	0.6	(28.3)	(8.7)	37.0	(91.7)	(185.7)	(403.1)	(15.0)	3.5	(10.0)
Cash from operation	**43.5**	**19.3**	**60.4**	**43.5**	**10.2**	**68.1**	**57.8**	**213.5**	**110.3**	**(14.2)**	**130.4**	**165.5**	**212.1**
Subtract capital expenditure	18.5	40.6	110.2	87.6	0.0	155.2	274.5	125.4	150.4	350.8	200.0	200.0	200.0
Free cash flow	**25.0**	**(21.3)**	**(49.7)**	**(44.1)**	**10.2**	**(87.1)**	**(216.7)**	**88.1**	**(40.2)**	**(365.0)**	**(69.6)**	**(34.5)**	**12.1**
Dividend	4.1	4.6	4.6	4.6	4.6	4.6	4.5	0.6	6.0	4.5	6.0	6.0	6.0
Net investments	0.0	0.0	0.0	0.0	0.0	20.5	2.7	(24.5)	(21.1)	1.9	5.2	1.2	(2.0)
Share issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in debt	16.2	22.6	26.6	56.4	46.0	88.4	196.7	7.0	51.4	373.7	96.0	(16.2)	(35.3)
Others	38.8	1.8	(23.1)	13.5	51.2	(30.0)	(59.5)	44.1	0.5	(4.5)	(3.4)	(40.6)	(48.8)
Net cash flow	**(1.6)**	**(1.7)**	**(7.4)**	**(4.3)**	**0.4**	**10.9**	**19.6**	**20.3**	**10.9**	**15.0**	**15.3**	**(21.1)**	**16.9**
Beginning cash	8.2	10.7	13.5	10.7	11.0	16.0	26.8	46.4	66.8	77.6	92.6	107.9	86.8
Ending cash	10.7	13.5	10.7	11.0	16.0	26.8	46.4	66.8	77.6	92.6	107.9	86.8	103.7

Stability ratio

	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Current ratio	108.9	105.1	54.0	83.9	100.5	64.7	91.5	114.7	103.9	97.0	118.7	140.5	148.5
Quick ratio	15.0	16.7	13.7	11.5	12.2	15.0	13.8	16.8	15.8	12.7	12.9	9.5	10.7
Inventory holding period	52.2	54.3	58.6	52.0	53.0	61.5	61.8	71.4	72.9	77.4	82.9	81.1	82.0
A/R collection period (days)	33.5	35.8	28.8	23.2	30.3	35.9	36.6	34.0	39.4	53.9	58.5	57.2	60.0
A/P period (days)	45.9	38.6	34.4	31.6	26.1	26.8	45.1	46.8	22.3	19.7	21.3	22.9	24.4
Interest bear debt (Wbn)	52.2	74.8	101.4	157.9	203.9	292.3	489.0	496.0	547.6	933.6	1,029.6	1,013.4	978.1
Cash &equivalents (Wbn)	11.8	14.7	14.8	15.6	21.1	33.7	103.7	134.4	113.9	135.2	147.9	121.8	138.7
Net int. bear debt (Wbn)	40.5	60.2	86.7	142.3	182.8	258.6	385.3	361.6	433.7	798.4	881.7	891.6	839.4
Net debt/equity (%)	21.3	29.1	37.1	56.7	71.2	92.8	138.6	94.4	89.7	141.3	125.2	101.3	78.3
Liability/equity (%)	63.0	63.0	85.7	101.4	119.4	155.6	259.2	170.6	160.5	236.7	204.1	165.6	134.3
Interest coverage (X)	11.7	9.3	6.2	5.0	2.3	5.5	2.2	9.9	7.7	7.3	9.2	9.9	9.6

Valuations and margins

	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
EV/EBITDA (X)	32.4	36.4	39.9	29.7	85.8	17.9	16.6	7.1	9.4	10.3	6.4	5.1	4.7
EPS (W)	278	223	334	230	107	297	(128)	1,194	1,129	925	1,527	1,916	2,087
EPS change (%)	13.9	(19.9)	50.1	(31.0)	(53.4)	176.9	N/A	N/A	(5.4)	(18.1)	65.2	25.5	8.9
PER (X)	64.1	80.0	53.3	77.3	165.7	59.9	N/A	14.9	15.8	19.3	11.7	9.3	8.5
BVPS (W)	2,004	2,177	2,462	2,644	2,704	2,936	2,929	4,034	5,092	5,953	7,417	9,270	11,294
P/BVPS (X)	8.9	8.2	7.2	6.7	6.6	6.1	6.1	4.4	3.5	3.0	2.4	1.9	1.6
P/BVPS (X)	45	45	45	45	45	45	15	60	45	60	60	60	60
Dividend (W)	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Dividend Yield (%)	14.9	10.6	14.4	9.0	4.0	10.5	(4.3)	34.3	24.7	16.7	22.9	23.0	20.3
ROA (%)	9.2	6.5	8.2	4.7	1.9	4.4	(1.4)	11.1	9.3	5.6	7.2	8.1	8.2
GP Margin (%)	28.9	28.0	27.8	27.4	24.1	29.7	24.7	33.8	30.2	24.1	25.0	24.3	24.3
OPM (%)	14.1	11.1	8.1	7.4	4.2	9.1	5.0	16.4	11.9	7.8	10.8	11.8	12.1
NPM (%)	9.7	7.3	10.4	5.5	2.2	5.0	(1.5)	11.2	9.3	6.1	8.0	8.5	8.7
EBITDA Margin (%)	19.6	16.7	14.6	15.4	4.2	16.7	13.0	23.7	15.7	11.5	14.8	15.6	15.8
ROIC (%)	13.2	9.3	10.8	6.5	3.4	7.4	8.8	19.0	13.5	8.0	10.7	12.3	12.3
WACC (%)	9.3	7.6	9.9	7.5	7.6	5.8	10.0	6.8	7.4	6.2	6.4	7.5	9.0
ROIC less WACC (%)	3.8	1.7	0.9	(1.0)	(4.1)	1.5	(1.2)	12.2	6.1	1.8	4.4	4.7	3.2

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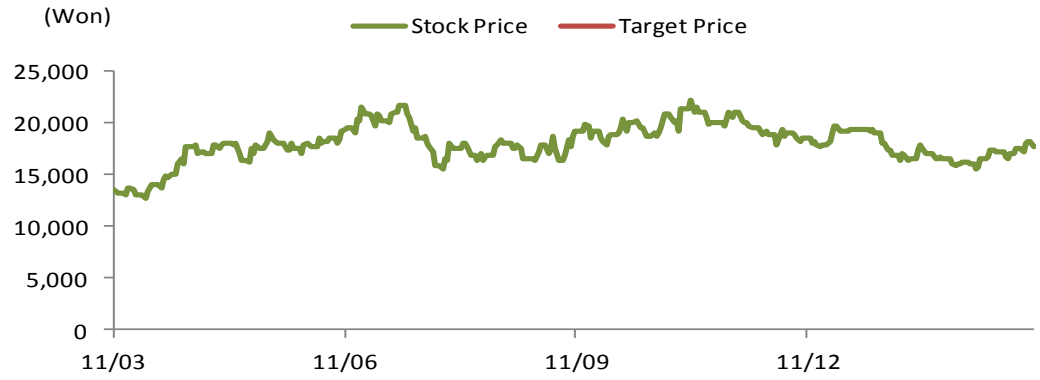
▶ Ratings and target price history in the past two years

Nexen Tire (002350 KS)	
Date	2012-04-02
Ratings	HOLD
Target Price	19,700

▶ Target price changes in past two years



▶ Investment period and ratings

Company

BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months.

Industry

OVERWEIGHT	Industry indicators are expected to outperform the market by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months.

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