LEADING Research

JNK Heaters (126880 KQ)

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Industrial fired heater supplier with strong growth potential

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Leading Traffic Light: Green

JNK Heaters is…

- ✓ The only domestic industrial fired heater supplier with the 2nd largest global market share
- ✓ Securing the new growth engine through business diversification (air cooled condenser)

Green light because:

- ✓ Strong growth potential backed by the growth of the plant construction market in the Middle East
- ✓ Undervalued relative to the plant equipment sector due to excessive price correction

Growth Potential:

- ➢ New orders doubled to W168.2bn in 2011 and will remain strong as it benefits from increasing plant orders from the Middle East
- ➢ Air cooled condensers to generate additional revenues of W200bn in the future

Profitability and financial stability:

- ➢ 10% OPM – solid profitability
- ➢ Net cash position to be maintained despite increasing working capital requirement

Management and Shareholders' Value:

- ➢ Engineering oriented management with professional understanding of the plant equipment business and project process
- ➢ Continuous value creation with high ROEs of near 20%

Valuation:

- ➢ Target price of W21,000 = a 53% upside potential
- ➢ 2012F PER of 8.0x – Concerns over poor quarterly results and delay in projects last year have overplayed

CAVEAT EMPTOR!!! – Watch out for…

- ➢ A possibility of delay in plant orders given the geopolitical risks in the Middle East

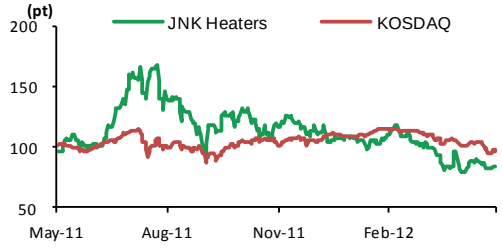
BUY

Target Price (KRW)	**21,000**
Current Price (KRW)	**13,700**
Upside Potential (%)	**53.3**

Key Data	**May 25, 2012**
Sector	Energy
KOSDAQ	462.40
Market Cap. (Wbn)	109.6
Shares Outstanding (m)	8.0
Foreign Ownership (%)	6.8
52 Week High (KRW)	27,250
Low (KRW)	12,800
60-d avg. turnover (Wbn)	1.2
Major Shareholders	**(%)**
Bang Hee Kim	27.6
Hyundai Commercial	12.7

Performance (%)	**1M**	**6M**	**12M**
Absolute	3.0	(29.7)	(12.7)
Relative	7.6	(26.2)	(9.1)

Relative Performance



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	84.2	27.2	12.5	14.9	9.8	4,609	(21.6)	3.0	1.4	43.1	1.1
2010	100.1	18.9	17.0	16.9	13.7	3,073	(33.3)	4.5	3.3	39.5	1.4
2011	105.7	5.6	13.2	12.4	9.4	1,169	(62.0)	11.7	7.6	15.8	1.4
2012E	170.1	60.9	16.9	9.9	13.7	1,716	46.7	8.0	4.8	16.8	1.3
2013E	201.6	18.5	20.8	10.3	17.3	2,159	25.8	6.3	3.5	18.3	1.1
2014E	240.8	19.4	25.8	10.7	21.4	2,679	24.1	5.1	2.6	19.5	0.9

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Key Check Point

✓ **The sole domestic industrial heater supplier**

JNK Heaters is the only domestic industrial fired heater supplier and a beneficiary of the growth of oil refinery/petrochemical plant construction markets in the Middle East. Although overseas plant construction orders received by Korean EPC (Engineering, Procurement and Construction) contractors slightly increased in 2011, the company's fired heater orders more than doubled YoY to W168.2bn in 2011 thanks to huge orders from a local EPC contractor in the Middle Eastern region, far exceeding the company's initial order target of W110bn. JNK has conservatively set its 2012 order target at W150bn, slightly lower than 2011 orders, considering the record high orders last year and uncertainty of order timing. While orders increased to W48.5bn in 1Q12 compared to W18.9bn in 1Q11, order flow in 2Q12 has been sluggish. However, major plant construction projects in the Middle East remain intact and we expect orders to come through from late 2Q12 and 3Q12. We believe there is a possibility that orders in 2012 will exceed its target again as last year.

✓ **Additional growth potential through business diversification into the air cooled condenser market**

JNK Heaters is constructing a core Air Cooled Condenser (ACC) parts/assembly plant to be operational from 4Q12. The company internally expects W70bn ACC orders in 2012. However, it does not include ACC orders in its official target order of W150bn, as ACC is a new business and the company does not want to disappoint investors by failing in achieving its target order. The company estimates that the ACC business will generate additional revenues of around W200bn in the future when its ACC plant enters full operation.

✓ **Consolidated revenue and OP are expected to increase 61% YoY and 29% YoY in 2012, respectively**

Backed by the all-time high orders in 2011, expected order momentum in 2H12 and revenue growth of subsidiaries, 2012E consolidated revenue is expected to soar to W170.1bn (non-consolidated W145.1bn), up 61% YoY, and OP is forecasted to reach W16.9bn (non-consolidated W15.7bn), up 29% YoY. Given higher fixed costs from the new ACC plant and domestic EPC contractors' low bidding practice for overseas plant construction projects, we expect OPM to decrease by 2.6%pt YoY to 9.9% in 2012 (non-consolidated OPM 10.8%). The company's 2012E non-consolidated revenue and OPM guidance are W150bn and 10.0%, respectively. We forecast non-consolidated revenue to be lower than the guidance due to sluggish orders in 2Q12. We expect a higher OPM because usually additional 1~2%pt margins are negotiable through expense settlement with EPC contractors during project construction period and therefore the company will be able to its OPM up to 12%. We expect revenue growth of near 20% per annum during 2013 and 2014, and OPM to improve steadily as well. Meanwhile, we conservatively have not included potential ACC revenues in our 2012 revenue estimate.

✓ **Risk of delay in the Iran project**

Delay in the Iran project is the biggest risk to the company's 2012 revenues and has been one of the main reasons for the company's share price correction along with poor quarterly performances last year. While the company received orders worth W68.5bn from PIDEC of Iran in May 2011, it has recognized virtually no revenue on the PIDEC project due to the delayed project approval by the Central Bank of Iran. Investors may consider this problem as a political risk, but project delays in Iran have been ordinary. Five previous projects that JNK Heaters conducted in Iran were likewise delayed, no single project was canceled. While we are still keeping eyes on possible further delays, PIDEC has notified JNK that it will pay an installment deposit of W13bn soon and JNK will start recognizing revenues on the project as soon as it receives the installment deposit. JNK Heaters is expecting W30bn revenue from the PIDEC project in 2012.

✓ **Target price W21,000 – 53.3% upside potential**

The company was listed on the stock market in January 2011 and the share price reached the historical high of W27,250 in August. However, due to concerns over continuous disappointing quarterly results and the Iran project delay, the share price has plunged nearly 50%, currently trading at 8 times 2012E EPS. Since uncertainty of quarterly performance is unavoidable in the order-based business, we believe annual results and order momentum are the more meaningful investment indicators. In addition, project delays in the Middle East are temporary and plant construction demand in the Middle East remains strong. We derived our target price of W21,000 by applying a target PER of 12.4x (the plant equipment sector average) to the company's 2013F EPS of W1,716.

Section 1: Valuation – Target Price W21,000

Currently trading at a 19% discount to the market PER

There are not sufficient share price data to assess whether the company shares are undervalued or overvalued relative to the stock market as the company was listed in January 2011. The shares were traded at 40~108% premiums over the market PER in 2011, but are currently trading at a 19% discount due to the continued share price correction.

Target price W21,000, 53.3% upside potential – stock price undervalued due to the price correction

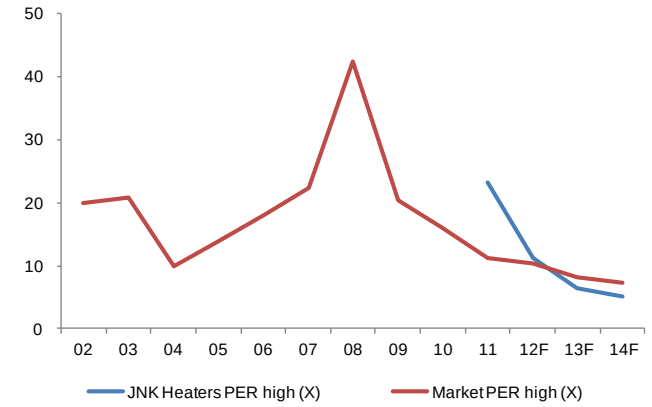
Concerns over quarterly results were eased as 1Q12 earnings recovered back to a normal level. While Iran project is still delayed, it is temporary caused by construction project priority adjustment and the Middle East plant construction market still remain strong. We expect order momentum to come into play late 2Q12 or early 3Q12. JNK shares are overly undervalued as the shares are undergoing the last phase of price correction. We recommend a BUY on JNK Heaters with a target price of W21,000, which was derived by applying the average PER of 12.4x of plant equipment companies to JNK's 2012F EPS of W1,716.

Exhibit 1. JNK Heaters valuation vs. Market valuation

	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
JNK Heaters PER high (x)					Listed in 2011					23.3	11.2	6.3	5.1
Market PER high (x)	19.9	20.7	9.9	13.9	17.9	22.3	42.4	20.4	16.0	11.2	10.3	8.1	7.3
Market Premium/(Discount) (%)										**108.1**	**8.9**	**(22.0)**	**(30.0)**
JNK Heaters PER low (x)					Listed in 2011					10.9	7.5	6.3	5.1
Market PER low (x)	9.9	10.2	5.7	7.2	11.0	10.9	16.2	9.8	9.6	7.8	9.2	8.1	7.3
Market Premium/(Discount) (%)										**40.3**	**(18.9)**	**(22.0)**	**(30.0)**

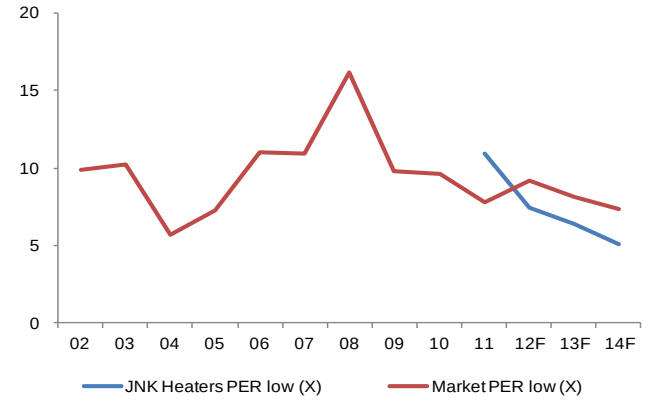
Source: FnGuide, Leading Research Center

Exhibit 2. JNK Heaters yr-hi PER vs Market yr-hi PER



Source: Bloomberg, Leading Research Center

Exhibit 3. JNK Heaters yr-hi PER vs Market yr-lo PER



Source: Bloomberg, Leading Research Center

Section 2: What is management philosophy?

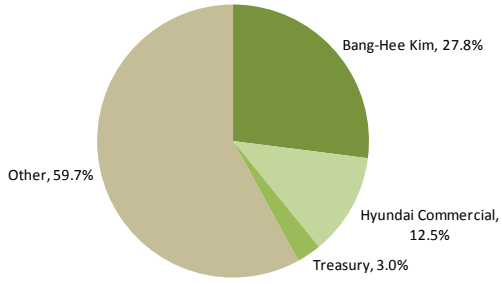
A former engineer, CEO Mr. Kim – putting importance on standard operating procedure

CEO, Bang Hee Kim, started his career as a process designer and project manager for refineries in Saudi-Arabia at Shin-Wha Construction Co.. Mr. Kim has been working in the same industry for 30 years, so it proves that he has enough working experience and knowledge as a management. As an engineer, he is a rational manager and puts importance on compliance with standard operating procedure. In terms of organization management, he emphasizes on an aware of goals and professionalism. More importantly, in terms of company's IR, he has a negative view on suggesting optimistic and unrealistic guideline to support the stock price.

CEO holds 27.8% of shares outstanding – share of CEO and employees account for 52%~53% of total outstanding

The former CEO and an executive director of Daelim Industrial Co., Jeon Byung Moon, held 50% of shares outstanding. However, he handed over all his shares to employees and resigned amid the sluggish in plant industry. Current largest shareholder is Mr. Kim, holding 27.8% of shares outstanding. The share of three executives besides Mr. Kim accounts for 6.5% of shares outstanding. JNK Heaters does not release the exact stake owned by whole employees, but has indicated that total stake owned by employees and the CEO would be 52%~53%. Hyundai Commercial, Hyundai Motors Group's sales financial subsidiary, is a second largest shareholder, holding a 12.5% stake which was purchased for the investment purpose before JNK Heaters was listed in 2009.

Exhibit 4. Shareholders (%)



Source: Company data

Exhibit 5. CEO Profile

Period	Experience
2003 ~ Present	CEO, JNK Heaters
1998~2003	Tech and marketing director, JNK Heaters
1986	Daelim Industrial, FH division
1983	Shin-Hwa Engineering Construction, Process division
	Education
1983	B.S Yonsei University (Chemical Engineering)

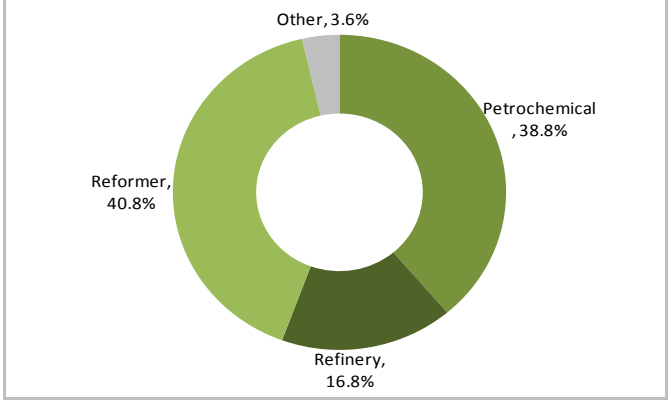
Source: Company data

Section 3: Company Snapshot

The Middle East is the largest fired heater market

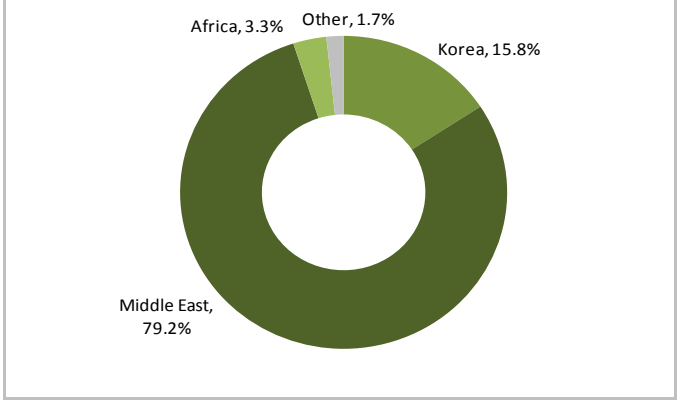
There are two types of the fired heater order: direct orders from business owners; outsourcing through domestic/foreign EPC contractors. Given domestic EPC contractors' low bidding practice for overseas plant construction projects, profitability of orders from domestic EPC contractors is lower than profitability from overseas business owners and EPC contractors. Domestic companies such as Samsung Engineering, Hyundai Heavy Industries, and Daelim Industrial Co. account for 60% of the total orders received in 2011. By regional group, the Middle East accounts for 79.2% (15.8% of domestic).

Exhibit 6. Orders breakdown by process (2011)



Source: Company data

Exhibit 7. Orders breakdown by region (2011)



Source: Company data

Competition with Heurtey Petrochem and ITT

There are 12 industrial fired heater suppliers in the world, and JNK Heaters is the only domestic company. Major competitors are Heurtey Petrochem of France and ITT of Italy. Heurtey Petrochem, the market leader, is running various equipment businesses such as naphtha cracker, natural gas treatment as well as fire heaters. Heurtey Petrochem recorded revenue of EUR3.44m in 2011 which is 10 times larger than JNK Heaters. JNK heaters and ITT are number two or three companies with similar market share.

Section 4: Operations and Forecast

Current status of fired heater industry

Industrial heater market is technically specialized so has high barrier to entry

The industrial fired heater market size is only US$2.5bn which is a small and specialized market. The competiveness in the fired heater market comes from design and track records based on understanding of petrochemicals which fit to feature of product characteristic. Entry barrier is high since the market scale is not big enough for big companies, and competition is intense for small and mid size companies in terms of design ability and installment record.

Order and design period of fired heater

If the fired heater production does not complete in plant process, the installation for next process is impossible. Thus, the fired heater related equipment order occurs in the early stage of EPC companies' plant construction, 3~4 months after the order. Almost of the payment of the small project orders are received in a year, and payment of big project takes 15~16 months. Facilities from outsourcing is supplied by some domestic companies such as KIC, Sung Chang, ENC and J-Tech and by some foreign companies for the production costs.

Account receivable collection period

10% down payment is received in the contract settlement, and extra 10% is received as process design begins- fired heater companies recognize as revenue since then. After the design competed, 25% of account receivable is received for materials purchasing. After the delivery, 45% of account receivable settles and 10% account receivable is received 3~4 months later. This is the end of the project. Since 45% of whole account receivable is received before the completion of facility, some portion of facility costs are imposed to fired heater companies. Therefore, the operating cost of fired heater companies' from the facility costs becomes burden.

Middle East plant market and trend in heater orders

Booming in the Middle East plant market expected

According to the local professional institute in the Middle East region where JNK Heaters shows the biggest portion of revenue and order, the Middle East construction order has surged to US$330bn (90%YoY). Especially, the order volume of oil-refinery, petrochemistry and power generation facilities are expected to double from US$32.9bn to US$76bn.

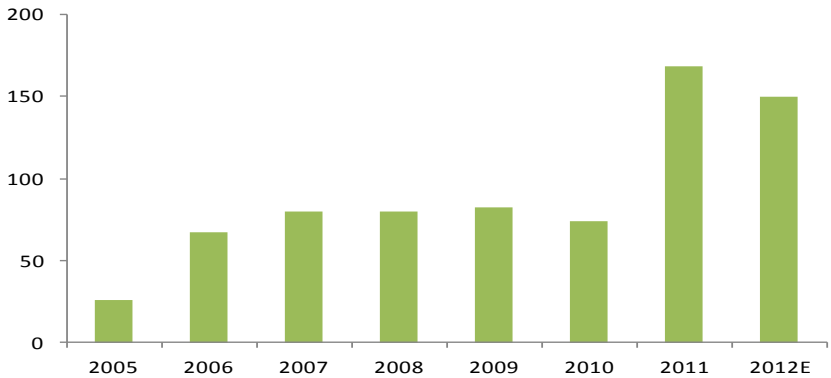
Exhibit 8. Oil refinery/petrochemistry/power generation order volume in the Middle East (US$bn)

Source: Middle East research institution

Volume of order in 2011 was doubled than the previous year

Even though the order volume of oil-refinery, petrochemistry and power generation facilities in the Middle East was weak last year and orders from Korea construction companies is slightly increased, the volume of order in fired heater of JNK Heaters was more than doubled from W73.7bn to W168.2bn which overachieved the target order of W110bn. The biggest improvement in revenue was Reformer project order of W68.5bn from PIDEC, Engineer Company in Iran.

Exhibit 9. JNK Heater receiving orders (Wbn)



Source: Company data

Although domestic EPS companies showed a poor performance in oversees` plants order, JNK Heaters showed incredible order increase in

JNK Heaters is targeting the revenue of W150bn in this year. Even though increased plant orders in the Middle East is expected, considering both all-time high performance last year and the uncertainty of order timing, we set the lower target order than last year to be conservative. However, 1Q12order was W48.5bn which was 2.6x YOY. While no order received in 2Q12, according to JNK Heaters, massive order of over W10bn is expected from SK Innovation Corp. and GS Caltex Corp. in late May or June. Although 2Q12 order is expected to plunge comparing to 1Q12, target order in this year is sufficiently feasible along with the increased order in 2H12.

Exhibit 10. JNK Heaters order received in 2011, 2012

Client	Project	Contract	Expire	Amount	Location
Samsung Engineering	STC PX700kTA Expansion	Jan 2011	Oct 2011	245	Korea
Daelim Industrial	JG Summit Naphtha Cracker	Jan 2011	Oct 2011	6,107	Philippines
Lummus	JG Summit	Jan 2011	Aug 2011	611	Philippines
Lummus	Westlake	Jan 2011	Jul 2011	343	Philippines
SK E&C	H	Jan 2011	Jan 2012	4,930	Korea
Samsung Engineering	Skikda Refinery Revamping	Feb 2011	Jul 2011	5,530	Algeria
Daelim Industrial	JG Summit Naphtha Cracker	Feb 2011	Oct 2012	247	Philippines
Hyundai Oilbank	#1 T/A HCR Stack replacement/repair	Feb 2011	May 2011	530	Korea
CB&I	CPC 6 - Cast Bracket	Mar 2011	Jun 2011	381	Thailand
S-Oil	CDU Heater APH replacement	Apr 2011	May 2012	3,659	Korea
Salalah Methanol	Salalah Methanol	Apr 2011	Jun 2011	14	Oman
PIDEC	Sabalan Naphtha	May 2011	Sep 2012	34,282	Iran
PIDEC	Dena Methanol	May 2011	Sep 2012	34,282	Iran
Lummus	LHT/APH	Jun 2011	Mar 2012	1,662	Saudi Arabia
Hyundai Heavy Industrial	HHI/HDO #2 BTX	Jul 2011	Oct 2012	14,400	Korea
Daelim Industrial	Sadara Mixed Free Cracker	Sep 2011	Jan 2013	794	Saudi Arabia
Daelim Industrial	Sadara Mixed Free Cracker	Oct 2011		62,444	Saudi Arabia
HanWha E&C	Hot Oil Heater	Nov 2011	Oct 2012	3,870	Korea
Lummus	Cast Support	Nov 2011	Apr 2012	219	U.S.A
Lummus	Supply of Cast Intl. Supports	Nov 2011	Jan 2013	222	U.S.A
Client	**Project**	**Contract**	**Expire**	3,200	**Nation**
Samsung Engineering	STC PX700kTA Expansion	Jan 2011	Oct 2011	798	Korea
Daelim Industrial	JG Summit Naphtha Cracker	Jan 2011	Oct 2011	36,289	Philippines
Lummus	JG Summit	Jan 2011	Aug 2011	8,211	Philippines

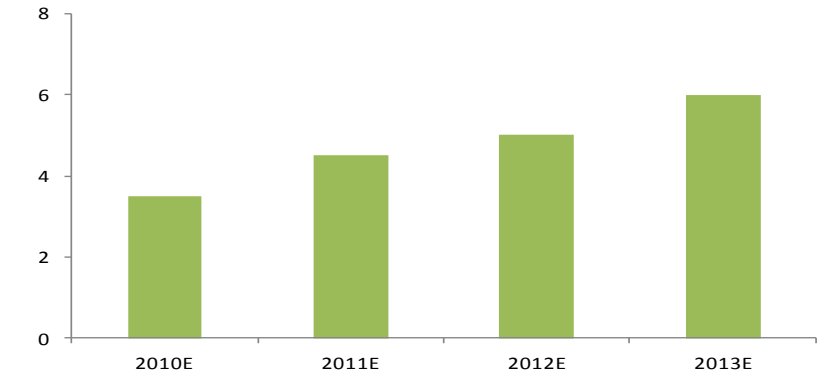
Source: Company data

Growth momentum by increasing ACC orders

Additional orders increase by ACC

In 2012, the target order of JNK Heaters includes only fired heaters except ACC orders. The company expects W70bn ACC orders and already begun to receive orders of the US$ 0.8m ACC project. However, the company does not include ACC orders in its official target order, as the company does not want to disappoint investors by failing in achieving its target order. If the company wins W70bn ACC orders, the company will record the total orders of W220bn (30% YoY).

Exhibit 11. ACC market size forecast (US$bn)



Source: Company data

Additional revenue of W200bn in ACC

Patents held by SPX and GEA were expired in 2010 in the ACC market. Therefore, new companies including JNK Heaters participate in the market. Although JNK Heaters does not hold a patent, the company is estimated to have enough competiveness with eight times ACC supply experience until 2008. Major ACC markets are North America, South America, the Middle East, and Africa. JNK Heaters established Landmark Air Cooled Condensers Inc. (LACC) in New Jersey, the U.S to improve its competiveness in local sales and engineering. Moreover, the company invested W20bn in a core parts/assembly plant construction in Dangin to be operational from 4Q12. JNK Heaters is expected to generate additional revenue of W200bn when its new factory enters full operation.

Earnings outlook (Non-consolidated)

Uncertainty of quarterly earnings

In 1Q12, non-consolidated revenue increased 61% YoY to W31.7bn, but operating profit declined 34% YoY to W3.2bn. However, revenue and operating profit increased each 16% and 113% from 4Q11. OP margin is lower than 1Q11 but two times higher than the low mark for 4Q11. Variability of quarterly earnings is not caused by sales environment but difference of revenue/costs recognition timing of projects and profitability.

Exhibit 12. JNK Heaters earnings forecast (Non-consolidated)

(Wbn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12E	3Q12E	4Q12E	2011	2012E	2013E	2014E
Revenue	19.7	25.5	19.7	27.3	31.7	28.1	36.8	48.5	92.1	145.1	174.6	210.6
Operating profit	4.9	3.4	2.7	1.5	3.2	2.8	4.3	5.3	12.5	15.7	19.5	24.3
Profit before taxes	5.2	4.0	2.8	0.1	4.1	3.4	4.4	5.6	12.1	17.4	21.2	26.1
NP	3.9	3.0	2.1	0.3	3.3	2.6	3.4	4.3	9.4	13.6	16.5	20.4
Margin (%)												
Operating profit	24.8	13.3	13.6	5.6	10.2	9.9	11.7	11.1	13.5	10.8	11.2	11.5
Profit before taxes	26.4	15.7	14.5	0.3	12.8	12.0	12.0	11.5	13.2	12.0	12.1	12.4
NP	20.0	11.9	10.9	0.9	10.3	9.4	9.2	8.9	10.2	9.4	9.5	9.7

Source: Company data, Leading Research Center

Orders trend and annual earnings momentum are reasonable rather than quarterly earnings

OP margin in 1Q12 increased 25% because rate of sales cost decreased by continuous sales while costs of projects are reflected in 4Q11. OP margin declined to 13% which is a normal level in 2Q11 and 3Q11. In 4Q11 OP margin decreased below 6% because of delay in overseas projects and low profitability projects. Considering of uncertainty, focusing on the order trend and annual earnings momentum are reasonable rather than quarterly earnings.

Expecting 58% increase in revenue and 26% increase in operating profit in 2012

Quarterly revenue and operating profit are expected to decrease in 2Q12, recover in 2H12, and record the largest earnings in 4Q12. In 2012, revenue is expected to increase 58% to W145.1bn and operating profit will increase 26% to W15.7bn. Expected revenue only reflected fired heater sales. OP margin is expected to decline 2.7%p to 10.8% from last year due to increase of fixed costs from the new ACC factory construction and domestic EPC contractors' low bidding practice for overseas plant construction projects. Between 2013 and 2014, revenue is expected to increase 20% annually and OP margin will be improved comparing with 2012 thanks to steady increase plant orders from the Middle East.

Planning to prove ACC to manufacturing cost by 2013

JNK Heaters provided W150bn as its revenue guidance in 2012. Two variables of expected earnings are ACC and delay in the revenue recognition of the project in Iran. The revenue guidance includes only revenue in fired heaters same as the target order. JNK Heaters is expected to generate approximately revenue of W20bn if the company wins the ACC order of W70bn in 2012. However, in the early stage of business, JNK Heaters plans to provide ACC facilities in manufacturing cost until 2013 for entering the market and securing company's awareness. Therefore, revenue in ACC is not included in company's profit by 2013. JNK Heaters expects OP margin of ACC will be a similar level of profitability of fired heaters after stabilizing business foundation. JNK Heaters assumed zero revenue in ACC in 2012 and expected W15bn in 2013 and W35bn in 2014 of ACC revenue.

Delay in the revenue recognition of the project in Iran due to PIDEC's internal issues

Delay in the revenue recognition of the project in Iran is the biggest risk to the company's earnings. The risk was the major factor to decrease company's share price along with poor quarterly performance in 2011. The project in Iran (W68.5bn) had been contracted in May 2011 and scheduled to complete supply by September 2012. However, revenue is not currently recognized by delay in the construction due to PIDEC's internal issues.

Scheduling to deposit the installment deposit cost from PIDEC

While the market recognizes the situation as a political risk between the U.S and Iran, delay in the construction often occurs in Iran. According to JNK Heaters, five previous projects in Iran conducted by the company were delayed, but none of contract was canceled. JNK Heaters spent approximately W1bn for the project received the order from PIDEC and already received W6.8bn as a deposit. Therefore, the monetary loss does not occur. PIDEC will deposit W13bn of the installment deposit of construction, and the revenue recognition will begin with the deposit. JNK Heaters expects revenue of W30bn in the Iran project considering with additional possibility of delay. If the construction in Iran is postponed to next year or canceled, the total revenue will decline to W120bn from W150bn.

Earnings outlook (Consolidated)

Increasing 60% YoY in consolidated revenue in 2012 with increase sales of subsidiaries

JNK Heaters announces only annual earnings in consolidated financial statements and quarterly earnings will be announced from 2013. The simple sum of revenue of subsidiaries is expected to increase 60% to W38bn in 2012 thanks to J-Tech's revenue increase. In addition to increase of outsourcing from JNK Heaters, J-Tech recorded revenue of W21.9bn in 2011 (35% YoY) with increase of external sales. The company aims to record revenue of W38bn in 2012 (74%YoY). However, in conservative view, we expect J-Tech's revenue of W35bn and I-Plant's revenue of W3bn. We expect transaction of W25bn from subsidiaries in consolidated revenue except internal transaction between JNK Heaters and subsidiaries. Revenue of subsidiaries is expected to have a similar growth rate to fire heater growth rate of JNK Heaters from 2013.

Expecting consolidated OPM of 9.9% in 2012

In terms of profitability, OP margin of J-Tech is expected to slightly increase 4% in 2012 from 3.2% in 2011 with the growth of company. While subsidiaries' level of contribution on operating profit is expected to improve thanks to increase revenue and margin, OP margin is still below 11% of parent company's OP margin. As a result, we expect 9.9% of consolidated OP margin which is lower than 10.8% of non-consolidated OP margin.

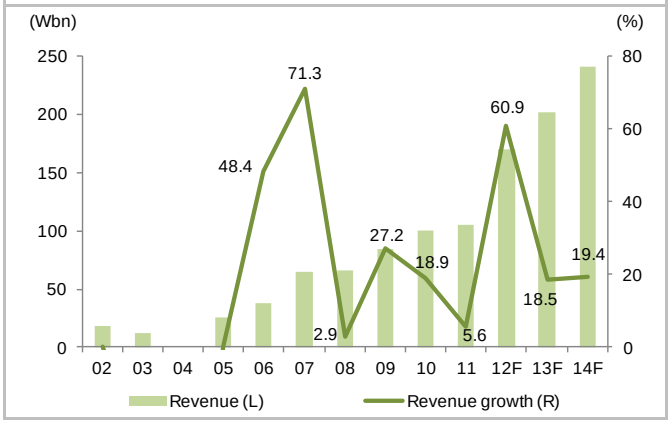
Exhibit 13. JNK Heaters earnings forecast (Consolidated)

(Wbn)	2008	2009	2010	2011	2012F	2013F	2014F
Revenue	66.2	84.2	100.1	105.7	170.1	201.6	240.8
Headquarter	66.2	84.2	91.0	92.1	145.1	174.6	210.6
Subsidiaries			9.1	13.6	25.0	27.0	30.2
Operating profit	5.1	12.5	17.0	13.2	16.9	20.8	25.8
Profit before taxes	8.6	11.7	17.4	12.1	17.8	22.2	27.5
NP	6.6	9.8	13.7	9.4	13.7	17.3	21.4
Margin (%)							
Operating profit	7.8	14.9	16.9	12.4	9.9	10.3	10.7
Profit before taxes	13.0	13.9	17.3	11.5	10.5	11.0	11.4
NP	10.0	11.6	13.6	8.8	8.1	8.6	8.9
Growth (%)							
Revenue	2.9	27.2	18.9	5.6	60.9	18.5	19.4
Headquarter	2.9	27.2	8.1	1.2	57.5	20.3	20.6
Subsidiaries				50.2	83.5	8.0	11.9
Operating profit	139.4	144.5	35.1	(22.4)	28.6	22.8	24.2
Profit before taxes	106.1	37.0	47.9	(30.2)	47.1	24.4	24.0
NP	105.2	48.2	39.2	(31.5)	46.7	25.8	24.1

Source: Company data, Leading Research Center

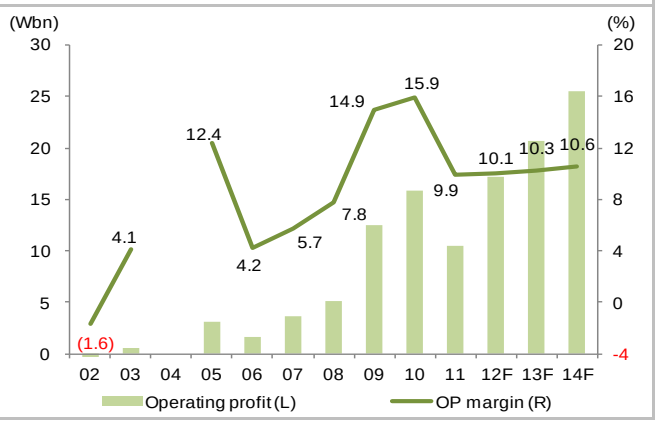
Section 5: Facts & Figures

Exhibit 14. Revenue and Growth trend



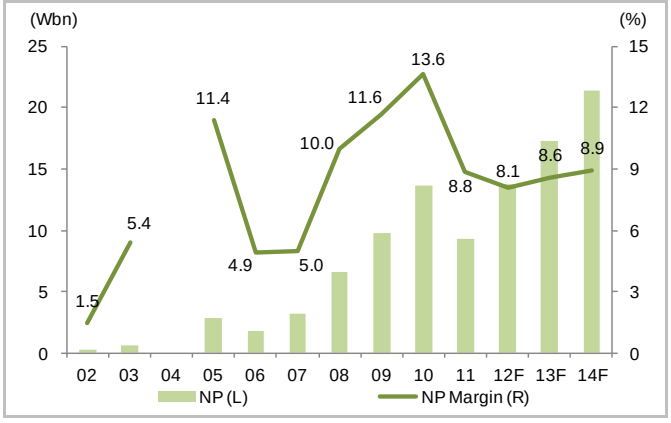
Source: Company data, Leading Research Center

Exhibit 15. Operating profit and OPM trend



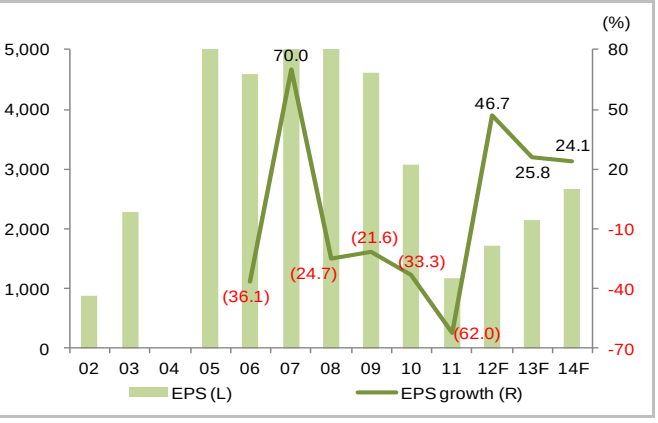
Source: Company data, Leading Research Center

Exhibit 16. Net profit and NP margin trend



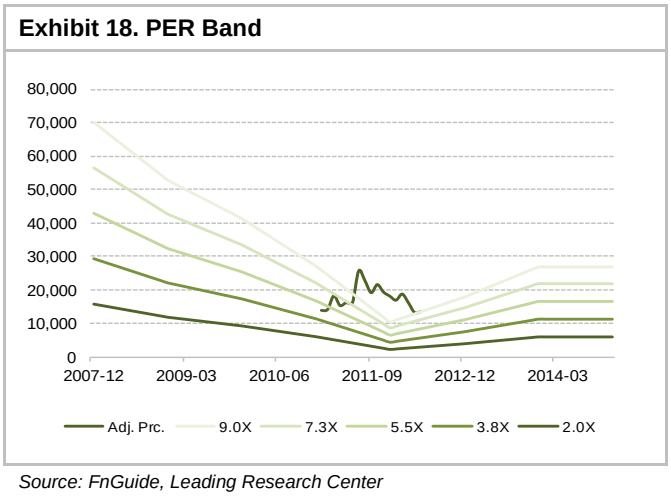
Source: Company data, Leading Research Center

Exhibit 17. EPS and EPS growth



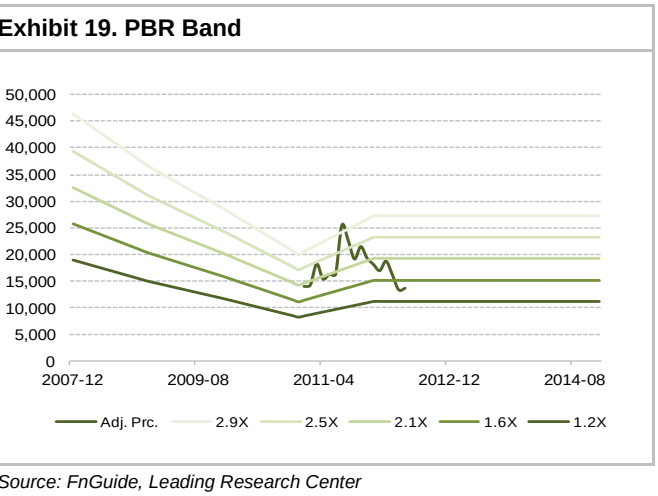
Source: Company data, Leading Research Center

Exhibit 18. PER Band



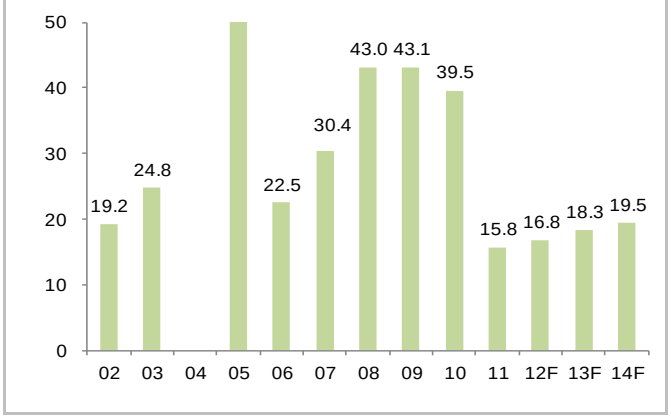
Source: FnGuide, Leading Research Center

Exhibit 19. PBR Band



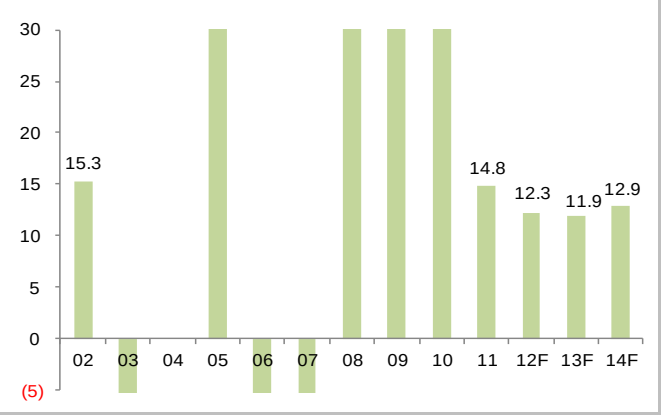
Source: FnGuide, Leading Research Center

Exhibit 20. ROE (%)



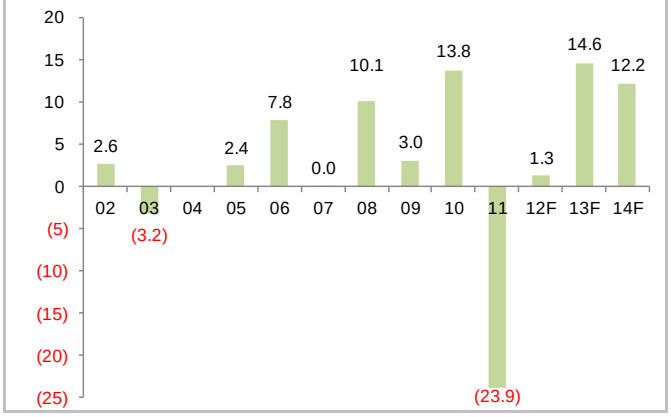
Source: Company data, Leading Research Center

Exhibit 21. ROIC less WACC (%)



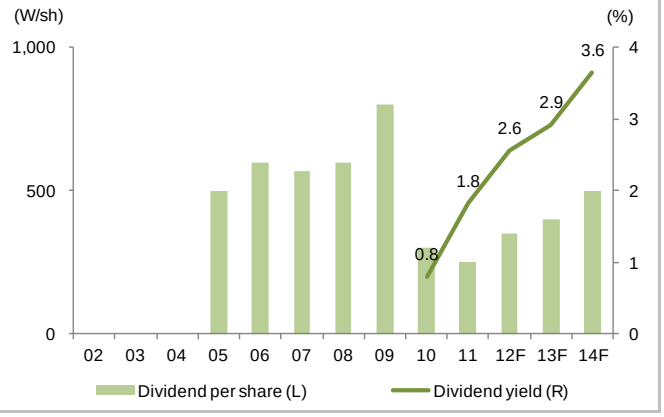
Source: Company data, Leading Research Center

Exhibit 22. Free Cash Flow trend (Wbn)



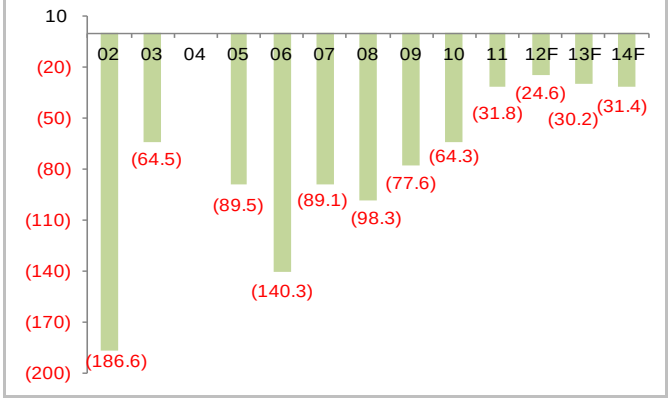
Source: Company data, Leading Research Center

Exhibit 23. Dividend per share and yield trend



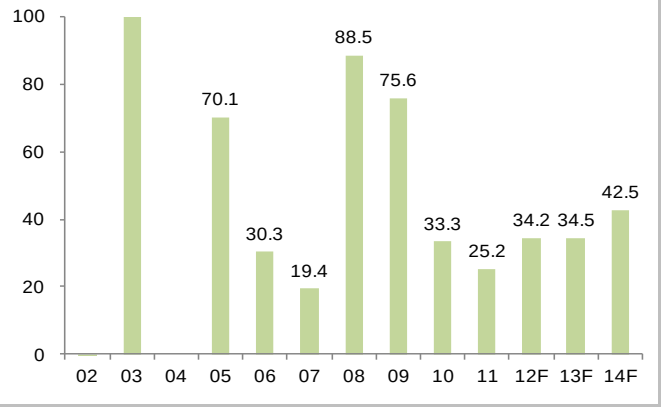
Source: Company data, Leading Research Center

Exhibit 24. Net debt/equity ratio (%)



Source: Company data, Leading Research Center

Exhibit 25. Interest coverage (X)



Source: Company data, Leading Research Center

Financial Statement (Financial statement was not submitted in 2004)

Income statement

(Wbn)	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Revenue	**18.2**	**12.6**		**25.3**	**37.6**	**64.3**	**66.2**	**84.2**	**100.1**	**105.7**	**170.1**	**201.6**	**240.8**
% chg yoy		(30.6)		N/A	48.4	71.3	2.9	27.2	18.9	5.6	60.9	18.5	19.4
COGS	16.8	10.7		20.7	34.2	58.6	57.5	67.5	79.0	89.3	147.3	172.7	205.4
Gross profit	**1.4**	**1.9**		**4.6**	**3.3**	**5.7**	**8.6**	**16.7**	**21.1**	**16.4**	**22.8**	**28.9**	**35.4**
GP margin (%)	7.8	15.4		18.2	8.9	8.9	13.0	19.9	21.0	15.5	13.4	14.3	14.7
SG&A	1.7	1.4		1.5	1.7	2.0	3.5	4.2	5.2	6.0	5.7	8.2	9.9
Operating income	**(0.3)**	**0.5**		**3.1**	**1.6**	**3.7**	**5.1**	**12.5**	**15.9**	**10.4**	**17.1**	**20.7**	**25.5**
Adj. OP margin (%)	(1.6)	4.1		12.4	4.2	5.7	7.8	14.9	15.9	9.9	10.1	10.3	10.6
Net other income	0.5	0.3		(0.0)	0.2	0.2	1.9	(1.7)	1.1	2.7	(0.2)	0.1	0.3
Reported OP	**(0.3)**	**0.5**		**3.1**	**1.6**	**3.7**	**5.1**	**12.5**	**17.0**	**13.2**	**16.9**	**20.8**	**25.8**
Net equity method gains	0.0	0.0		0.0	0.0	0.0	0.0	(0.1)	0.0	(0.4)	(0.3)	(0.3)	(0.1)
Financial income	0.1	0.2		0.3	0.4	0.4	2.3	1.2	0.9	1.8	2.5	3.2	3.4
Financial expenses	0.0	0.2		0.1	0.1	0.2	0.7	0.2	0.5	2.5	1.3	1.5	1.6
Income before tax	0.3	0.9		3.3	2.0	4.2	8.6	11.7	17.4	12.1	17.8	22.2	27.5
Income tax	0.0	0.2		0.4	0.2	0.9	2.0	1.9	3.7	2.8	4.1	4.9	6.1
Tax rate (%)	0.2	0.2		0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net profit	**0.3**	**0.7**		**2.9**	**1.8**	**3.2**	**6.6**	**9.8**	**13.7**	**9.4**	**13.7**	**17.3**	**21.4**
Controlling interest	0.3	0.7		2.9	1.8	3.2	6.6	9.8	13.5	9.2	13.5	17.1	21.1
Non-controlling	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.3
Other comprehensive inc	0.0	0.0		0.0	0.0	0.0	0.0	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
Total comprehensive inc	0.3	0.7		2.9	1.8	3.2	6.6	9.8	13.4	9.1	13.5	17.1	21.1

Balance sheet

(Wbn)	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Current assets	**11.4**	**5.1**		**13.0**	**22.2**	**22.6**	**31.4**	**39.2**	**57.2**	**87.0**	**111.3**	**134.2**	**160.6**
Cash & equivalents	0.2	0.4		3.5	5.1	1.4	7.3	2.5	10.1	4.6	5.0	8.3	12.8
ST financial assets	5.0	1.6		3.4	8.0	9.8	12.9	21.6	23.9	37.4	36.8	43.3	46.0
Accounts receivables	1.7	3.0		6.1	8.5	11.1	9.8	13.7	19.5	35.9	56.5	67.6	84.5
Inventory	0.0	0.0		0.0	0.0	0.0	0.5	0.5	2.1	5.5	8.8	10.4	12.3
Others	4.6	0.1		0.0	0.5	0.3	0.8	0.9	1.6	3.6	4.2	4.6	5.0
Non-current assets	**0.3**	**0.4**		**1.9**	**3.4**	**5.5**	**8.1**	**8.6**	**18.4**	**34.9**	**41.0**	40.6	40.2
Fixed assets	0.0	0.2		1.4	1.5	1.9	2.8	2.6	13.1	26.5	31.8	30.8	29.9
LT financial assets	0.1	0.1		0.2	1.7	3.1	4.6	3.1	2.4	2.8	3.1	3.4	3.5
Inv in related co's	0.0	0.0		0.0	0.0	0.0	0.0	1.6	0.3	1.7	1.8	1.9	1.9
Others	0.1	0.2		0.3	0.2	0.6	0.8	1.3	2.7	3.9	4.3	4.5	4.9
Total assets	**11.7**	**5.6**		**14.9**	**25.6**	**28.1**	**39.6**	**47.7**	**75.6**	**121.8**	**152.3**	**174.8**	**200.9**
Current liabilities	**8.9**	**2.7**		**6.8**	**15.9**	**15.1**	**20.2**	**19.6**	**28.1**	**40.2**	**58.9**	**67.5**	**75.8**
Accounts payables	3.6	1.9		3.7	10.7	8.0	8.7	9.4	13.8	17.7	32.4	39.4	45.8
ST financial liabilities	0.0	0.2		0.0	0.0	0.0	1.6	3.1	2.7	13.6	15.5	16.5	17.0
Others	5.3	0.6		3.1	5.2	7.1	9.9	7.1	11.5	8.9	11.0	11.7	13.0
Non-current liabilities	**0.0**	**0.0**		**0.9**	**0.6**	**0.9**	**0.8**	**1.3**	**5.2**	**5.4**	**6.1**	**5.9**	**6.1**
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
LT financial liabilities	0.0	0.0		0.4	0.4	0.4	0.3	0.2	4.0	4.2	4.8	4.5	4.5
Others	0.0	0.0		0.5	0.2	0.5	0.5	1.1	1.2	1.2	1.3	1.4	1.6
Total liabilities	**8.9**	**2.8**		**7.7**	**16.5**	**16.0**	**20.9**	**20.9**	**33.3**	**45.6**	**65.0**	**73.4**	**81.9**
Paid-in capital	0.1	0.1		0.2	0.2	0.4	0.7	1.4	3.0	4.0	4.0	4.0	4.0
Capital surplus	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	25.3	25.3	25.3	25.3
Other comprehensive	(0.1)	(0.1)		(0.0)	0.0	(0.0)	(0.0)	(1.5)	(1.6)	(1.5)	(1.5)	(1.5)	(1.5)
Others	2.7	2.7		7.1	8.9	11.7	17.9	26.9	38.4	45.7	56.5	70.4	87.6
Retained earnings	0.0	0.0		0.0	0.0	0.0	0.0	0.0	2.3	2.8	3.0	3.2	3.5
Non-controlling interest	**2.7**	**2.8**		**7.3**	**9.1**	**12.1**	**18.6**	**26.8**	**42.3**	**76.3**	**87.3**	**101.4**	**118.9**

Free cashflow analysis

(Wbn)	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Net profit	**0.3**	**0.7**		**2.9**	**1.8**	**3.2**	**6.6**	**9.8**	**13.7**	**9.4**	**13.7**	**17.3**	**21.4**
Adj. for non-cash exp.	**0.1**	**0.5**		**0.3**	**0.0**	**0.6**	**1.4**	**1.1**	**2.7**	**4.5**	**(0.8)**	**(0.4)**	**(0.7)**
Depreciation	0.0	0.0		0.1	0.1	0.1	0.3	0.3	0.8	0.7	1.2	1.8	1.9
Provision for reserves	0.1	0.1		0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Net FX gains	0.0	(0.0)		0.0	(0.0)	0.0	(0.4)	(0.0)	(0.2)	(0.1)	(0.2)	(0.1)	0.0
Net eq method gains	0.0	0.0		0.0	0.0	0.0	0.0	(0.1)	0.0	(0.4)	(0.3)	(0.3)	(0.1)
Others	0.0	0.3		0.1	(0.2)	0.3	0.5	0.4	1.5	3.0	2.8	3.0	3.1
Chg in op assets & liab	**2.3**	**(4.2)**		**0.7**	**6.0**	**(3.3)**	**3.2**	**(7.7)**	**0.9**	**(19.6)**	**(5.2)**	**(1.4)**	**(7.6)**
Incr in WC (decr)	(2.0)	3.1		2.4	(4.6)	5.3	(1.5)	3.1	3.1	15.9	9.2	5.7	12.4
Others	(0.3)	1.1		(3.2)	(1.4)	(2.1)	(1.8)	4.6	(3.9)	3.7	4.0	4.3	4.8
Cash from operations	**2.7**	**(3.1)**		**3.9**	**7.9**	**0.5**	**11.3**	**3.2**	**17.2**	**(5.8)**	**7.8**	**15.4**	**13.2**
Capital expenditures	0.0	0.1		1.4	0.1	0.5	1.2	0.2	3.4	18.1	6.5	0.8	1.0
Free cash flow	**2.6**	**(3.2)**		**2.4**	**7.8**	**0.0**	**10.1**	**3.0**	**13.8**	**(23.9)**	**1.3**	**14.6**	**12.2**
Dividend	0.0	0.0		0.0	0.4	0.4	0.4	0.9	2.2	1.7	2.0	2.7	3.1
Incr in investment assets	0.0	0.0		0.0	0.0	0.0	0.0	0.5	0.0	1.8	0.4	0.4	0.1
Share issues	0.0	0.0		0.0	0.0	0.2	0.4	0.7	2.4	27.2	0.0	0.0	0.0
Increase in debt	0.0	0.2		0.4	0.0	0.0	1.5	1.4	3.4	11.0	2.5	0.7	0.5
Others	(0.2)	0.2		(0.3)	1.2	1.7	1.9	0.2	5.7	6.6	3.7	4.6	5.4
Net cash flow	**0.2**	**0.2**		**3.5**	**1.6**	**(3.7)**	**5.9**	**(4.8)**	**7.5**	**(5.4)**	**0.3**	**3.3**	**4.5**
Beginning cash	0.0	0.2		0.0	3.5	5.1	1.4	7.3	2.5	10.1	4.6	5.0	8.3
Ending cash	0.2	0.4		3.5	5.1	1.4	7.3	2.5	10.1	4.6	5.0	8.3	12.8

Stability ratios

	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
Current ratio	127.6	187.9		192.6	139.7	149.3	155.8	199.6	203.7	216.5	189.0	198.7	211.9
Quick ratio	1.4	8.1		26.7	23.1	6.2	23.3	6.4	17.6	5.3	4.5	6.2	8.0
Inv. holding period (d)							1.7	2.9	6.1	15.7	17.8	20.3	20.2
A/R collection period (d)	16.6	67.9		43.9	71.0	55.7	57.8	50.9	60.5	95.6	99.1	112.3	115.3
A/P period (days)	39.4	94.9		32.3	76.8	58.3	52.4	49.0	52.7	62.1	60.7	75.2	75.0
Interest bear debt (Wbn)	0.0	0.2		0.4	0.4	0.4	1.9	3.3	6.7	17.8	20.3	21.0	21.5
Cash & equivalents (Wbn)	5.1	2.0		6.9	13.2	11.2	20.2	24.1	33.9	42.0	41.8	51.6	58.8
Net int. bear debt (Wbn)	(5.1)	(1.8)		(6.5)	(12.7)	(10.8)	(18.3)	(20.8)	(27.2)	(24.3)	(21.5)	(30.6)	(37.3)
Net debt/equity (%)	(186.6)	(64.5)		(89.5)	(140.3)	(89.1)	(98.3)	(77.6)	(64.3)	(31.8)	(24.6)	(30.2)	(31.4)
Liability/equity (%)	325.3	100.0		105.8	181.7	132.2	112.2	78.0	78.9	59.8	74.5	72.4	68.9
Interest coverage (X)	(173.5)	358.3		70.1	30.3	19.4	88.5	75.6	33.3	25.2	34.2	34.5	42.5

Valuations and margins

	02	03	04	05	06	07	08	09	10	11	12F	13F	14F
EV/EBITDA (X)	3.6	4.3		(0.3)	(4.4)	(0.1)	0.4	1.4	3.3	7.6	4.8	3.5	2.6
EPS (W)	880	2,286		7,189	4,592	7,807	5,882	4,609	3,073	1,169	1,716	2,159	2,679
EPS yoy chg (%)		159.7			(36.1)	70.0	(24.7)	(21.6)	(33.3)	(62.0)	46.7	25.8	24.1
PER (X)	15.6	6.0		1.9	3.0	1.8	2.3	3.0	4.5	11.7	8.0	6.3	5.1
BVPS (W)	9,166	9,285		18,128	22,720	29,354	16,575	12,602	9,512	9,699	10,907	12,67	14,86
P/BVPS (X)	1.5	1.5		0.8	0.6	0.5	0.8	1.1	1.4	1.4	1.3	1.1	0.9
Dividend/sh (W)	0	0		500	600	570	600	800	300	250	350	400	500
Dividend yield (%)	0.0	0.0		3.6	4.4	4.2	4.4	5.8	2.2	1.8	2.6	2.9	3.6
ROE (%)	19.2	24.8		79.3	22.5	30.4	43.0	43.1	39.5	15.8	16.8	18.3	19.5
ROA (%)	4.5	7.9		38.5	9.1	12.0	19.5	22.5	22.1	9.5	10.0	10.6	11.4
GP margin (%)	7.8	15.4		18.2	8.9	8.9	13.0	19.9	21.0	15.5	13.4	14.3	14.7
OP margin (%)	(1.6)	4.1		12.4	4.2	5.7	7.8	14.9	15.9	9.9	10.1	10.3	10.6
NP margin (%)	1.5	5.4		11.4	4.9	5.0	10.0	11.6	13.6	8.8	8.1	8.6	8.9
EBITDA margin (%)	(1.6)	4.3		12.6	4.4	5.9	8.3	15.4	16.7	10.6	10.8	11.2	11.4
ROIC (%)	21.1	(59.1)		715.1	(99.8)	(244.4)	482.1	331.4	118.6	24.0	22.4	23.6	26.1
WACC (%)	5.8	4.6		4.3	4.9	5.2	5.3	4.2	3.8	9.2	10.1	11.7	13.1
ROIC less WACC (%)	15.3	(63.7)		710.8	(104.7)	(249.7)	476.8	327.3	114.8	14.8	12.3	11.9	12.9

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▶ Ratings and target price history in past two years

JNK Heaters (126880 KQ)	
Date	2012-05-29
Rating	BUY
Target price	21,000

▶ 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 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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