LEADING

Mid-Cap Research

SL Corp. (005850 KS)

November 14, 2011

Growth potential through customer base diversification

Analyst : Joon Mo Park
jmpark@leading.co.kr
82-2-2009-7328

Leading Traffic Light: Green

SL Corp. is…

- ✓ The largest automobile lamp manufacturer in Korea with the 7th largest global market share
- ✓ Hyundai Motor Co. (HMC) group and GM are major customers

Green light because:

- ✓ Customer diversification beyond the HMC group to provide growth opportunities
- ✓ Undervalued relative to other major auto parts manufacturers

Growth potential:

- ➢ Most diversified customer base among Korean auto parts manufacturers while benefiting from the growth of the HMC group
- ➢ GM to account for more of SL's global sales growth going forward

Profitability:

- ➢ Net income to increase almost 20% YoY in 2011 and 2012 in line with strong equity method earnings
- ➢ Currently, subsidiaries in China are the most profitable, but US subsidiaries will provide another earnings momentum in the future

Value Creation and financial stability:

- ➢ High ROE of 20% in the low margin auto parts manufacturing business
- ➢ Net cash holding to be maintained thanks to continuous growth in operating cashflow

Valuation:

- ➢ Most undervalued among major parts producers but we anticipate that the discount will end soon based on the expected market re-rating
- ➢ Target price of W31,500 per share with 21.4% upside potential

CAVEAT EMPTOR!!! – Watch out for…

- ➢ Potential increase in auto lamp supply to Hyundai/Kia by Hyundai Mobis

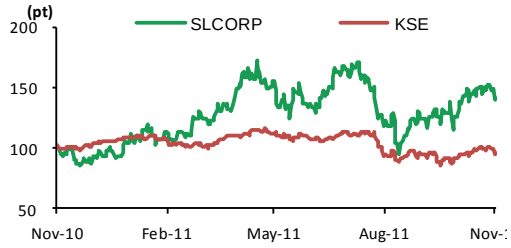
BUY

Target Price (KRW)	**31,500**
Current Price (KRW)	**25,950**
Upside Potential (%)	**21.4**

Key Data	**November 11, 2011**
Sector	Auto & auto parts
KOSPI	1,863.45
Market Cap. (Wbn)	878.8
Shares Outstanding (m)	33.9
Foreign Ownership (%)	9.4
52 Week High (KRW)	31,700
Low (KRW)	15,750
60-d avg. turnover (Wbn)	9.5
Major Shareholders	**(%)**
Seong Yeop Lee & others	60.3
Stanley Electric	5.0

Performance (%)	**1M**	**6M**	**12M**
Absolute	1.8	3.8	41.8
Relative	(1.2)	15.9	44.5

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)
2008	321.6	(1.7)	14.8	4.6	(43.6)	(1,288)	N/A	N/A	33.0	(16.7)	3.3
2009	353.5	9.9	17.2	4.9	86.1	2,541	N/A	10.2	30.3	28.8	2.6
2010	525.6	48.7	19.6	3.7	82.1	2,424	(4.6)	10.7	24.8	20.7	1.9
2011E	568.1	8.1	27.8	4.9	98.1	2,898	19.5	9.0	18.6	19.7	1.6
2012E	621.8	9.5	33.6	5.4	116.9	3,452	19.1	7.5	15.0	19.5	1.3
2013E	675.2	8.6	39.2	5.8	134.2	3,963	14.8	6.5	11.8	18.7	1.1

Table of contents

Key check points for SL Corp. ……..…..…….…… 3

Section 1: The company at a glance …….……..… 4

Section 2: Is the company a value creator? ……..…….…… 7

Section 3: Is the company a cash generator and share cash with shareholders? ……..... 8

Section 4: Are the debt and interest burden manageable? ……...… 9

Section 5: Asking for money with share issues, CB & BW? 10

Section 6: What is the management philosophy? …..…….. 11

Section 7: Peer group comparison ……..……. 12

Section 8: FX exposure and sensitivity …….…….. 13

Section 9: Operations overview and earnings forecast …….. 14

Section 10: Valuation – Target price of W31,500 …… 18

Key check points for SL Corp.

✓ Growth potential through customer diversification beyond the HMC group

SL already has a dominant 80% share of total auto lamp supply going to the HMC group. On top of this strong customer base, the company is securing more sales and orders from automakers other than HMC, mainly GM. Thus, its customer base is rapidly expanding. Sales to non-HMC companies accounted for 31% of SL's total global sales in 2010, making the company's customer base one of the most diversified among Korean auto parts manufacturers. Moreover, the portion of new orders from outside of HMC was 47% in 2010, far exceeding the portion of sales. This suggests further customer diversification and growth in the future. GM is the largest contributor to this diversification, accounting for more than 70% of both sales and orders from non-HMC companies. SL began supplying lamps for GM's Chevrolet Malibu in October 2011. Over the next 5 years, SL is expected to generate W300bn in sales from Malibu lamps alone. SL will also supply lamps and chassis for the Chevrolet Cruze beginning in 2014F, with estimated total revenue of W876bn. (Page 15)

✓ Net income – four times higher than operating profit due to huge equity method earnings

SL was one of the first Korean auto parts manufacturers to expand overseas. SL's overseas expansion is closely related to the HMC group's global expansion in the early 2000s. Since then, SL has continuously increased its overseas presence, and its foreign subsidiaries now generate far more in sales than the SL parent company itself. In 2010, total sales for the SL group (including sales from domestic subsidiaries) were 4.5 times higher than sales for SL alone, reaching W2.38tr. Total equity method earnings were W63.4bn, while the parent company's operating profit was W19.3bn. We estimate that equity method earnings will increase by 19% YoY to W75.7bn in 2011E and will reach almost W100bn in 2013F.

Chinese subsidiaries are the most profitable as they contributed 44% of total equity method earnings in 2010 while representing only 18% of subsidiary sales. These subsidiaries are mostly joint ventures with local automakers that also have joint venture agreements with HMC. They are profitable because the joint venture agreements allow them to enjoy generous parts pricing by HMC. Meanwhile, SL's US subsidiaries still have low profitability because of ongoing capacity expansion and low capacity utilization. However, the US subsidiaries will manufacture most of SL's parts intended for GM's Chevrolet Malibu and Cruze models, and therefore future sales and profit growth will be driven by these US subsidiaries

✓ FTA with EU and US to benefit auto assemblers, not parts manufacturers

Free trade agreements with the EU and the US have raised expectations that the removal of trade barriers, including tariffs, will provide Korean auto parts manufacturers with opportunities to rapidly expand overseas. However, we believe such expectations would be premature given that Korean auto parts manufacturers will not see any major increase in sales to European and US automakers any time soon. Many of the parts are already manufactured in local markets. The HMC group has also reimbursed Korean parts makers for import tariffs that they have paid. The elimination of tariffs only benefits the HMC group, as it will no longer have to reimburse its suppliers. The FTAs therefore will have almost no effect on parts manufacturers.

After the EU-Korea FTA came into effect in July 2011, Korean auto parts manufacturers received inquiries about their products from European automakers. However, it takes a long time to develop a relationship with a new customer. First, a parts maker supplies a small volume of parts while incurring high costs. Over several years, the parts manufacturer can gradually increase its involvement until it becomes a first tier supplier. Within the group of the first tier suppliers, there are major and minor suppliers. Becoming the major supplier among the first tier also takes many years. With this in mind, SL's short term plans are to fully capitalize on its relationships with existing major customers, especially GM, rather than aggressively seeking out new customers.

✓ Target price of W31,500 per share with an upside of 21.4%

SL shares have been consistently traded at a discount relative to the industry since 2005. However, the share price has increased almost 11 fold since 2009, while the industry stock price index has increased only 4.3 fold over the same period of time. The market's re-rating on SL has been accelerating this year and we believe the discount will come to an end soon. Given SL's growth potential from its increasing involvement with GM, we believe the company deserves a premium to the industry. However, we conservatively decided not to apply any premium and derived our target price of W31,500 per share by applying the industry average PER of 9.1X to our 2012E EPS of W3,452. (Page 12 & Page 18)

Section 1: The company at a glance

The 7th largest automobile lamp manufacturer in the world

Largest automobile lamp producer in Korea with the 7th largest global market share

SL is the largest manufacturer of automobile lamps in Korea and the 7th largest in the world, with 7% of the global market share. The company was established as a manufacturer of bicycle lamps and brakes in 1954 and began supplying the lighting system for Hyundai's first model, the PONY, in the mid-1970s. The company started supplying to GM in late 1980s, when Daewoo began making the Pontiac LeMans. In the early 2000s, the company established several joint ventures in China and Europe with Hella, the world's 2nd largest auto lamp producer. This was done while simultaneously expanding overseas alongside HMC. In addition to auto lamps, SL produces chassis products (pedal and transmission levers), mirrors, and front end modules (FEM).

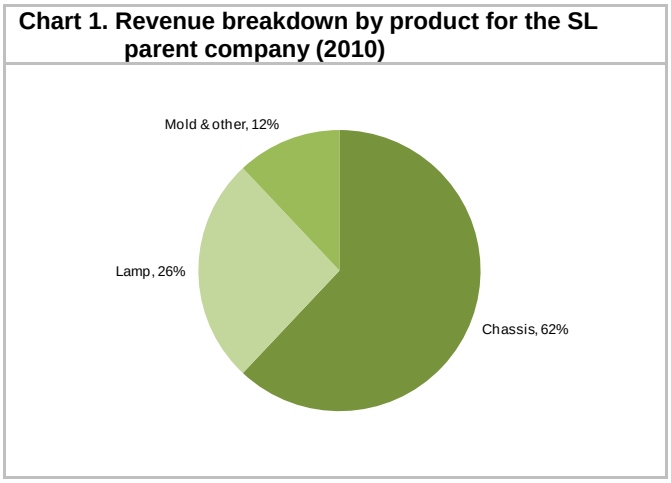
Other domestic producers are Hyundai Mobis (lamp), Kyung Chang (chassis) and Halla Climate Control (FEM)

SL supplies about 80% of HMC's auto lamps, while Hyundai Mobis (12330 KS) supplies the remaining 20% with its affiliate, IHL (unlisted). SL also supplies about 60-70% of the HMC group's pedal and transmission lever chassis. The remaining 30-40% is produced by Kyung Chang Industrial (024910 KQ) and Donghee (unlisted). In addition, SL, Mobis, and Halla Climate Control (018880 KS) each supply an equal proportion of FEMs to HMC.

Lamps are SL's major product, accounting for 61% of global sales

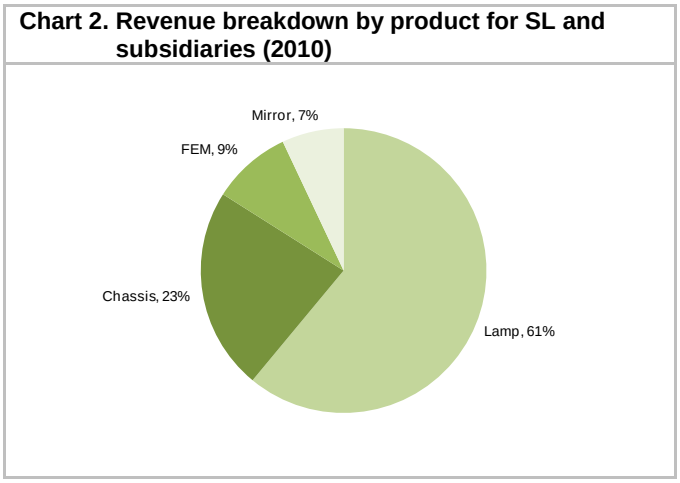
Chassis products account for the largest portion (62%) of the SL parent company's sales, but auto lamps are the major product of the SL group, generating 61% of global sales. SL's auto lamps are produced by 11 SL companies: SL itself, 3 domestic subsidiaries, and 7 overseas subsidiaries. In Korea, SL's auto lamps are produced at several different plants, but this is not for any strategic reason. Before Kia was acquired by HMC in 1998, HMC did not want SL to produce Hyundai and Kia lamps in the same plant, because the companies were competitors. Most of SL's subsidiaries currently produce Hyundai and Kia lamps together in the same plants, and these are supplied to HMC for auto assembly. The SL parent company produces auto lamps only for aftermarket use.

Chart 1. Revenue breakdown by product for the SL parent company (2010)



Source: SL

Chart 2. Revenue breakdown by product for SL and subsidiaries (2010)

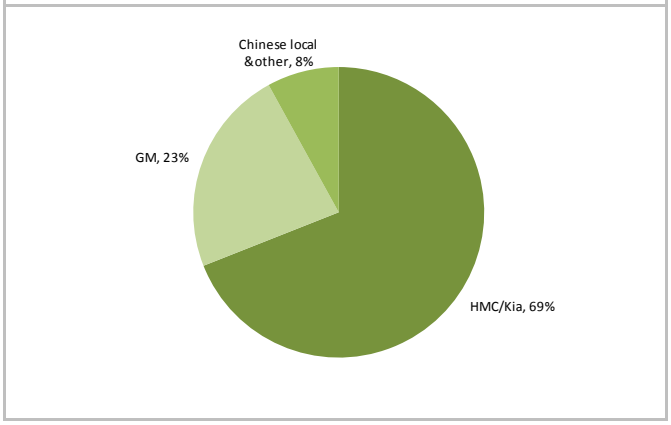


Source: SL

Customer diversification through GM

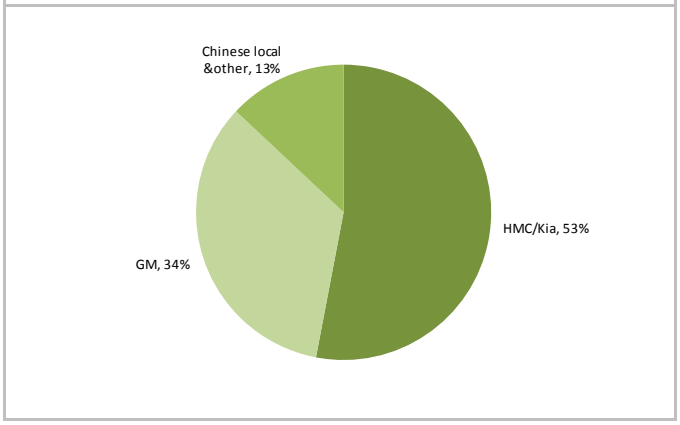
For Korean auto parts makers, customer diversification means that a large portion of their exposure is with companies other than HMC. SL has one of the most diversified customer bases among Korean auto parts manufacturers. Non-HMC sales accounted for 31% of total sales and 47% of total orders in 2010. This suggests further customer diversification and growth in the future. (see charts 3 & 4)

Chart 3. Global sales breakdown by customer (2010)



Source: SL

Chart 4. Global order breakdown by customer (2010)



Source: SL

Global sales totaled W2.38tr in 2010, 4.5 times higher than SL's parent company sales

SL was one of the first Korean parts manufacturers to expand overseas. In the early 2000s, HMCs global expansion projects provided an opportunity for SL to build production facilities abroad. Since then, SL has continued its international expansion. The SL group includes 15 subsidiaries. The subsidiaries operate 9 overseas plants in the US, China, Europe, and India, and 6 domestic plants. Global sales for the whole SL group reached W2.38tr in 2010 (consolidated sales of W1.3tr), 4.5 times higher than the SL parent company's sales. The company's net income is four times higher than its operating profit, due to huge equity method earnings from its subsidiaries.

Table 1. SL's global business portfolio (2010)

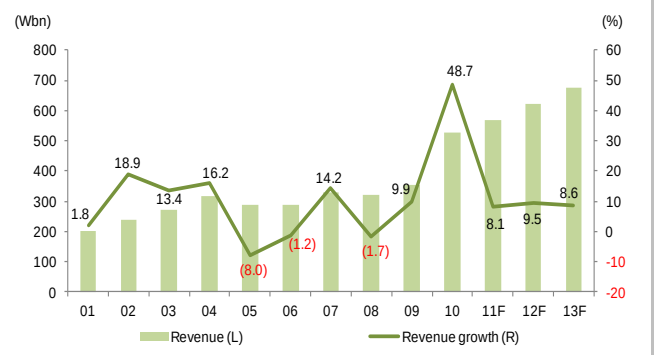
Company	Est.	Equity Stake	Product	Major Customer	Revenue (Wbn)	Net inc. (Wbn)	Remark
SL	1954		Lamp/Chassis	HMC/Kia/GM	525.6	82.1	
SL Lighting	1987	21.3%	Lamp	HMC/Kia/GM	216.8	18.7	Partnership with Stanley Electric
SL Seo Bong	1994	34.3%	Lamp	HMC/Kia/GM	187.8	8.7	
SL Lightek	2000	29.6%	Lamp	Kia	175.9	3.8	
SHB	2002	50.0%	FEM	HMC/Kia	315.3	9.3	Partnership with HBPO
KDS	1995	50.0%	Chassis	GM/Inteva	61.5	8.7	Partnership with Inteva
HSL	2000	50.0%	Electrical parts	SL affiliates/GM	108.5	9.1	Partnership with Hella
SL Beijing	2002	51.0%	Lamp	HMC	110.8	15.9	Partnership with Hella. Capex in 2012
SL Shanghai	2002	60.0%	Chassis	HMC/Kia/GM/VW	119.4	17.5	Partnership with SAIC
SL Dongfeng	2004	50.0%	Lamp	Dongfeng/PSA	22.2	2.0	Supply to Chinese auto assemblers
SL Yentai	2005	100.0%	Lamp	GM/HBPO	72.6	8.9	
SL Alabama	2003	100.0%	Lamp/Mirror	HMC/Kia	235.0	5.9	
SL Tennessee	2000	100.0%	Lamp/Chassis	HMC/Kia/GM			Capex in 2012 and 2013
SL-Hella Slovakia	2006	51.0%	Lamp	HMC/Kia	50.1	0.9	Partnership with Hella
SL Gmbh	2009	100.0%	Lamp	HMC/Kia	53.0		CKD assembly plant
SL Lumax	1997	78.7%	Lamp	HMC/Ford	129.3	11.2	
Subsidiaries total					**1,858.1**	**102.6**	

Source: SL

Subsidiaries in China are the most profitable

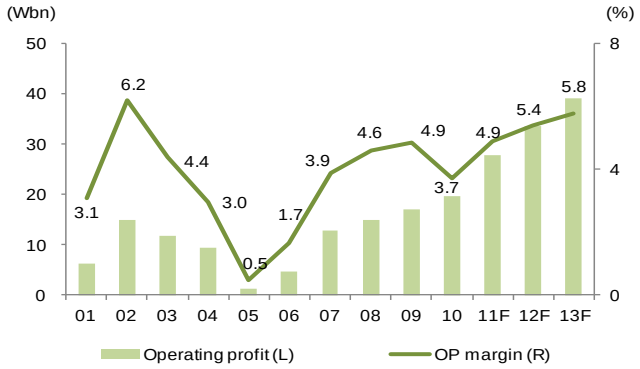
Subsidiaries in China are the most profitable because they are mostly joint ventures with local automakers that also maintain joint venture partnerships with the HMC group. Therefore, parts pricing by the HMC group is relatively generous. Among domestic subsidiaries, KDS and HSL appear to be the most profitable because they rely less on the HMC group for their revenue generation.

Chart 5. Revenue and growth trend



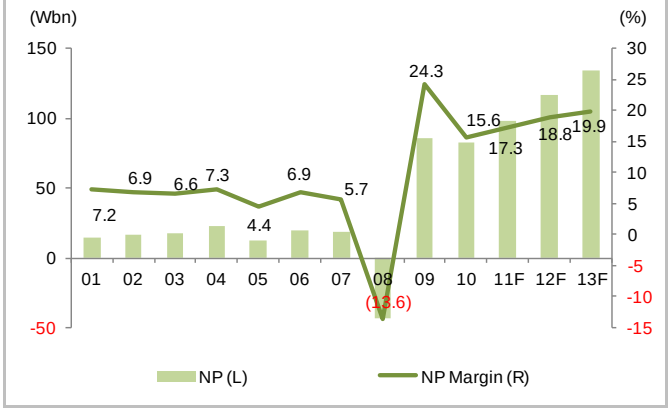
Source: SL and Leading Research Center

Chart 6. Operating profit and OPM trend



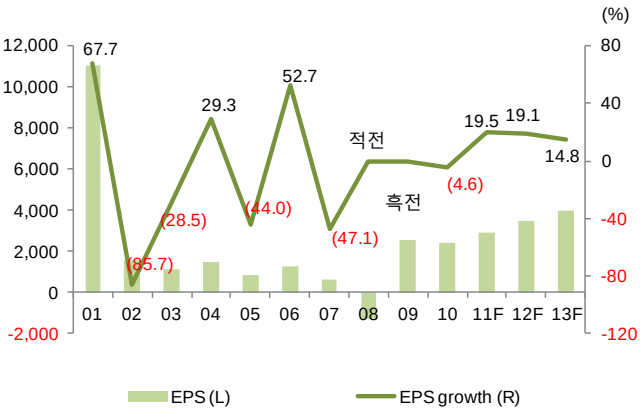
Source: SL and Leading Research Center

Chart 7. Net income and profit margin trend



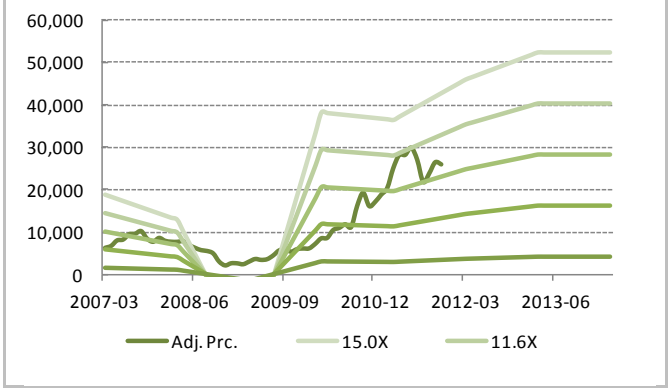
Source: SL and Leading Research Center

Chart 8. EPS and EPS growth



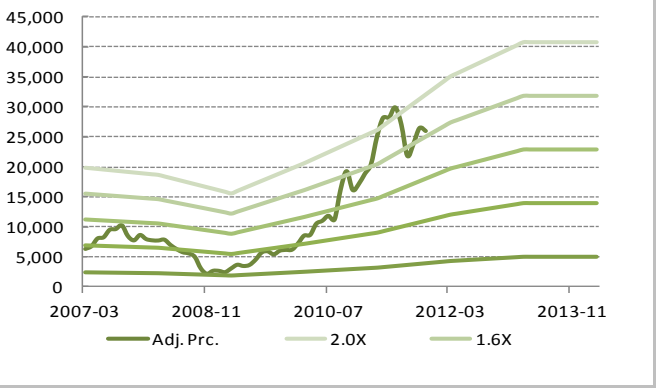
Source: SL and Leading Research Center

Chart 9. PER Band



Source: FnGuide and Leading Research Center

Chart 10. PBR Band



Source: FnGuide and Leading Research Center

Section 2: Is the company a value creator?

High ROE in the low margin parts manufacturing business

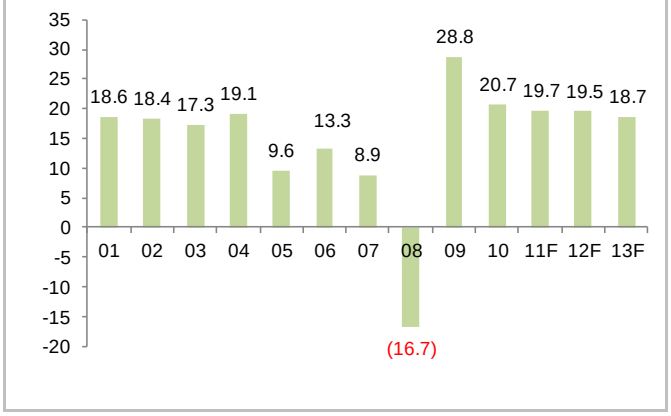
High ROE of 20% thanks to profit growth at subsidiaries

ROE fell below 10% in the mid-2000s due to unsuccessful chassis price negotiations and SL even posted huge losses in 2008 due to KIKO option contracts. However, ROE recovered to an industry-high 29% in 2009 as the profit structure returned to normal. Equity method earnings increased sharply to W51.0bn from W14.3bn in the previous year. We estimate that ROE will remain high at almost 20% in the coming years, thanks to SL's global sales growth and the increasing profitability of SL's subsidiaries.

ROIC to remain low at 5-7% as returns on investment have been realized through equity method earnings

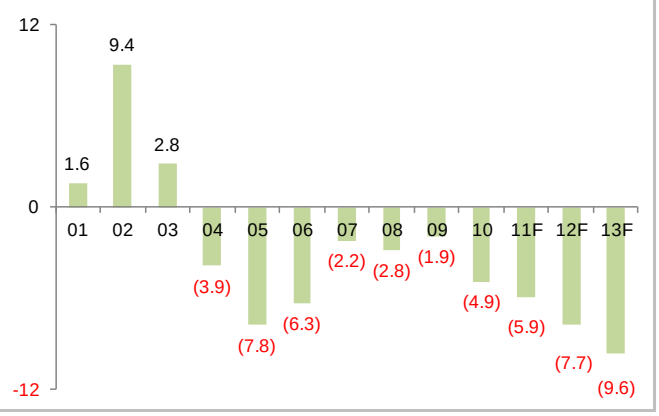
Despite high ROEs for most Korean manufacturing companies, SL's ROIC has been consistently lower than WACC. However, low ROIC should not be a concern as the company has invested most of its capital in subsidiaries, and returns on investment have been realized through equity method earnings. Operating profit based ROIC will continue to remain low at 5-7% in the future.

Chart 11. ROE (%)



Source: SL and Leading Research Center

Chart 12. ROIC less WACC (%)



Source: SL and Leading Research Center

Section 3: Is the company a cash generator and share cash with shareholders?

Increasing cashflow generating capability

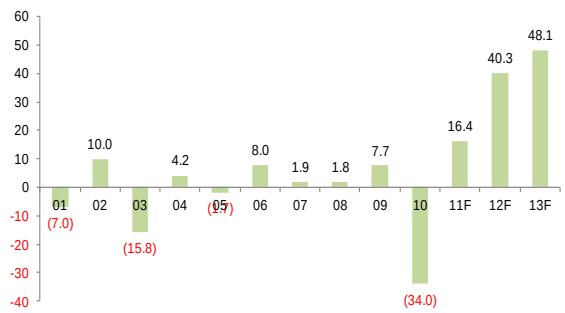
Temporary cashflow deterioration in 2010

SL generated average operating cashflow of more than W10bn per year for the past 10 years. The company temporarily recorded negative FCF of W34.0bn in 2010 as working capital increased by W35.1bn, and capital expenditures more than doubled to W23.6bn. However, the capital expenditure increase reflects mostly a merger with its subsidiary, SL Seong San (April 2010), not actual cash spending.

FCF to improve significantly from 2011E

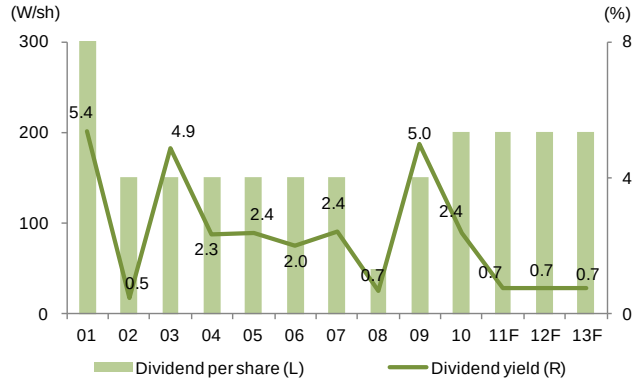
While the company plans to spend W28.6bn in 2011E mainly for the construction of a driving assistance system plant (W20.0bn), we estimate that it will be able to generate FCF of W16.4bn thanks to continuous profit growth. FCF will reach W48.1bn in 2013F as capital expenditures will fall to about W11bn in 2012F and remain low for the foreseeable future.

Chart 13. Free cashflow trend (Wbn)



Source: SL and Leading Research Center

Chart 14. Dividend per share and yield trend



Source: SL and Leading Research Center

Dividend yield of less than 1%

Meanwhile, the company increased the dividend per share from W50 in 2008 to W200 in 2010, but dividend yield was still below 1%. The company's ability to pay dividends should improve further this year with a cashflow surplus. However, the company has indicated that it has no plan to raise dividends for now as investment opportunities, including the construction of additional overseas plants, may surface in the future.

Table 2. Dividend and yield trend

(Wbn)	01	02	03	04	05	06	07	08	09	10	11E	12F	13F
Operating cashflow	9.9	19.1	(1.0)	15.7	9.3	17.4	11.2	15.5	17.2	(10.4)	45.0	51.3	59.6
CAPEX	16.9	9.1	14.8	11.5	11.0	9.4	9.2	13.7	9.6	23.6	28.6	11.0	11.5
Free cashflow	(7.0)	10.0	(15.8)	4.2	(1.7)	8.0	1.9	1.8	7.7	(34.0)	16.4	40.3	48.1
Total dividend paid	1.3	1.6	2.4	2.4	2.4	2.4	4.0	1.6	4.7	6.8	6.8	6.8	6.8
Per share dividend (Won)	1000	150	150	150	150	150	150	50	150	200	200	200	200
Dividend yield (%)	5.4	0.5	4.9	2.3	2.4	2.0	2.4	0.7	5.0	2.4	0.8	0.8	0.8

Note: Dividend yields before 2011 based on the year-end closing prices
Source: SL and Leading Research Center

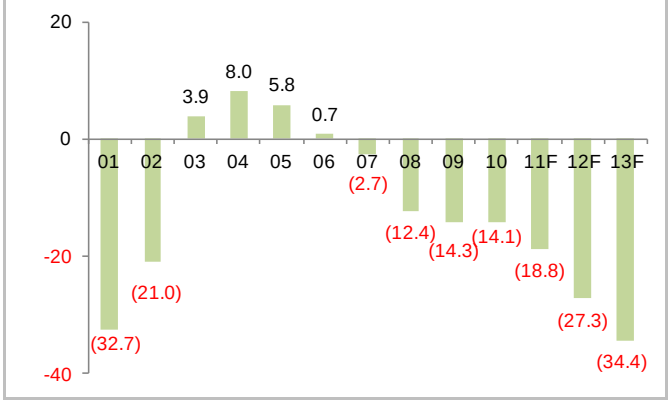
Section 4: Are the debt and interest burden manageable?

Net cash holding balance sheet

Net cash holdings to increase further

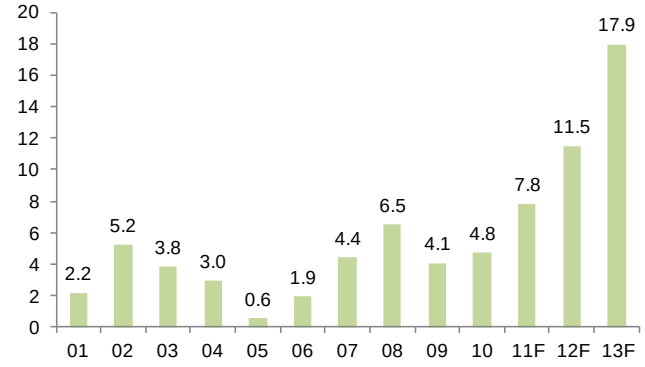
Borrowings slightly exceeded cash holdings in the early 2000s due to active investment in capacity increases and construction of overseas production facilities. However, the company has maintained a net cash holding position since 2007 and its net cash holdings should continue to increase.

Chart 15. Net debt/equity ratio (%)



Source: SL and Leading Research Center

Chart 16. Interest coverage (X)



Source: SL and Leading Research Center

Table 3. Borrowing and interest expenses

(Wbn)	01	02	03	04	05	06	07	08	09	10	11F	12F	13F
Interest bearing debt	61.3	63.3	70.7	74.4	55.6	59.6	44.6	48.9	41.2	117.6	101.0	81.5	62.0
Cash & equivalent	89.2	83.3	66.4	64.0	47.6	58.5	51.6	80.9	90.0	181.6	203.3	259.9	330.6
Net int. bearing debt	(27.9)	(20.0)	4.3	10.5	8.0	1.1	(7.0)	(32.0)	(48.9)	(64.0)	(102.3)	(178.4)	(268.6)
Net int. bear debt/eq. (%)	(32.7)	(21.0)	3.9	8.0	5.8	0.7	(2.7)	(12.4)	(14.3)	(14.1)	(18.8)	(27.3)	(34.4)
Interest expenses	2.8	2.8	3.1	3.2	2.6	2.5	2.9	2.3	4.2	4.1	3.6	2.9	2.2
Interest coverage (X)	2.2	5.2	3.8	3.0	0.6	1.9	4.4	6.5	4.1	4.8	7.8	11.5	17.9

Source: SL and Leading Research Center

Section 5: Asking for money with share issue, CB & BW?

No cash shortage problem or overhang issue

Virtually no possibility of capital increase in the future

Capital increases in 2003 and 2007 reflect a bonus issue and a merger with SL's subsidiary, SL Tech. The company raised capital through stock issuance (5.6mn shares, a 19.8% increase in outstanding shares) in 2008 for the first time since its listing in 1988. This was done to finance a land purchase for its industrial complex in Daegu, and to secure some cash holdings. Given that the company has accumulated enough cash holdings and has no major investment plans, we see virtually no possibility of capital increases in the future.

The company has not issued BW and CB since its listing and has no plan to do so.

Table 4. Capital raised through stock issuance

(Wbn)	01	02	03	04	05	06	07	08	09	10	Inc. during '01-10
Paid-in capital	6.6	5.2	7.9	7.9	7.9	7.9	14.1	16.9	16.9	16.9	10.4
Paid-in cap in excess of par	1.7	1.7	0.0	0.0	0.0	0.0	101.8	133.5	133.5	133.5	131.8
Capital raised thru stock issue	**0.0**	**(1.3)**	**0.9**	**0.0**	**0.0**	**0.0**	**108.0**	**34.5**	**0.0**	**0.0**	**142.2**

Source: SL

Section 6: What is the management philosophy?

Securing industry leading technologies

Excellent management capability

SL has two co-CEOs, Chairman Choong Gon Lee, and his son, President Seong Yeop Lee. Chairman Lee is a second generation CEO. He took the reins of the company when he was appointed as president in 1983. It is evident that he has excellent management capability as he has successfully managed the company to become the 7th largest auto lamp manufacturer in the world. At the beginning of his presidency, the SL parent company's sales were a mere W4.6bn, but in 2010 global sales reached W2.4tr. Chairman Lee has received several awards for his outstanding achievements with SL.

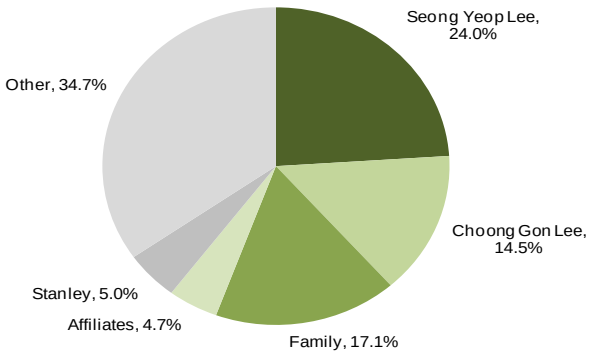
Chairman is a strong leader

Chairman Lee is a very frugal man and is also a strong leader. His management priority is to secure industry leading technologies through human resource development. From a personnel management perspective, he emphasizes trust and responsibility. His management style and personal character were influenced mostly by his father, the late honorary chairman of the company. Those virtues of frugality, trust and responsibility have been a family tradition set by the honorary chairman. Chairman Lee also established a community service foundation, donating his personal wealth of W10bn in 2006.

Friendly stake of 65%

President Seong Yeop Lee, son of Chairman Lee, was appointed as president in 2006. He is in charge of day to day operations of the company. Chairman Lee has been involved in major investment decisions, and still manages the company's financial operations. We therefore believe that President Lee is still learning how to run the company. President Lee and his father hold 24.0% and 14.5% stakes in SL, respectively. In addition, total friendly stakes in the company are 65.3% including stakes held by the Lee family, SL subsidiaries, and Stanley Electric, SL's business partner.

Chart 17. Shareholders



Source: SL

Table 5. CEO Profile

Choong Gon Lee, Chairman		Seong Yeop Lee, President	
Period	**Professional experience**	**Period**	**Professional experience**
2001 ~ Present	Chairman, SL	2006 ~ Present	President, SL
1983	President, Samlip Industries	2005	Executive Vice President, SL
1969	Managing Director, Samlip Industries	2000	Joined SL
			Hyundai Securities
	Education		**Education**
1968	BS in Mechanical Engineering, Yonsei University		MBA, Drexel University
			BA in Economics, University of Wisconsin

Source: SL

Section 7: Peer group comparison

Most undervalued among major domestic auto parts producers

We have selected five major Korean auto parts producers and four global lamp suppliers for peer comparison. SL is the most undervalued among the selected domestic peer group companies based on 2011E and 2012E PER valuations. The company is the most expensive auto parts producer based on EV/EBITDA valuation. However, equity method earnings growth from increasing global OEM exposure best reflects the overall operation of auto parts manufacturers. Therefore, parent company operating profit based EV/EBITDA valuations no longer provide meaningful investment guidelines.

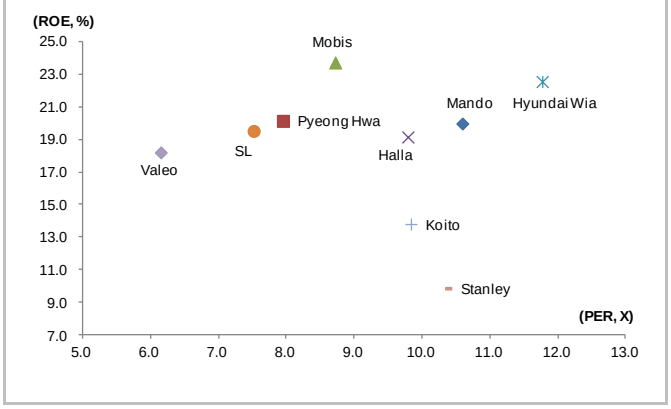
Table 6. Peer group comparison

Company	Ticker	Country	Mkt Cap (US$m)	Sales (US$m)				OPM (%)			
				09	10	11E	12E	09	10	11E	12E
SL	005850 KS	Korea	791	293	457	505	553	4.9	3.7	4.9	5.4
Mando	060980 KS	Korea	3,118	1,192	1,825	2,725	3,260	4.5	4.2	5.6	6.2
PyongHwa Pre.	043370 KQ	Korea	363	252	325	354	376	4.7	4.1	4.3	5.0
Hyundai Mobis	012330 KS	Korea	26,969	8,380	11,850	15,309	16,987	13.4	13.2	14.1	14.1
Halla Climate	018880 KS	Korea	2,198	1,111	1,555	1,794	1,943	4.7	5.8	7.3	7.7
Hyundai Wia	011210 KS	Korea	3,696	2,457	3,837	5,190	6,078	3.9	3.0	5.1	5.5
Koito	7276 JP	Japan	2,176	4,404	5,020	5,317	5,621	8.8	8.7	9.0	8.4
Stanley Electric	6923 JP	Japan	2,434	2,576	2,903	3,054	3,199	10.2	12.1	12.5	12.3
Ichikoh	7244 JP	Japan	151	1,007	1,083			0.6	3.3		
Valeo	FR FP	France	3,634	10,457	12,778	14,680	15,351	1.1	6.1	6.4	6.1

Company	PER (X)				EV/EBITDA (X)				P/B (X)				ROE (%)			
	09	10	11E	12E	09	10	11E	12E	09	10	11E	12E	09	10	11E	12E
SL	3.1	10.1	9.0	7.5	9.9	25.9	18.6	15.0	0.8	1.7	1.6	1.3	28.8	21.5	19.7	19.5
Mando		11.8	13.8	10.6		13.9	11.4	9.2		1.9	2.4	2.0	8.5	18.0	19.2	20.0
PyeongHwa Pre.	5.2	7.5	9.6	7.9	5.5	9.7	12.1	10.4	1.0	1.6	1.8	1.5	20.0	23.1	20.4	20.1
Hyundai Mobis	9.6	11.2	9.7	8.7	9.6	11.9	10.4	8.9	2.1	2.7	2.3	1.8	24.6	27.1	27.4	23.7
Halla Climate	9.5	10.5	11.5	9.8	11.4	12.5	11.8	9.8	1.5	1.9	2.0	1.7	16.2	18.4	18.6	19.1
Hyundai Wia			15.7	11.8			13.6	11.0			3.0	2.4	9.8	14.3	22.5	22.5
Koito	35.9	21.4	14.3	9.8	4.2	3.5	3.1	2.6	1.5	1.5	1.1	1.1	9.7	9.7	11.1	13.8
Stanley Electric	18.5	13.9	9.8	10.3	6.1	4.1	3.1	3.0	1.6	1.2	0.9	0.8	9.8	9.8	8.6	9.9
Ichikoh		29.9			5.8	3.8			1.2	1.4			3.8	3.8		
Valeo		8.7	6.0	6.1	4.4	3.2	2.6	2.4	1.5	1.9	1.3	1.1	(10.5)	26.5	22.2	18.2

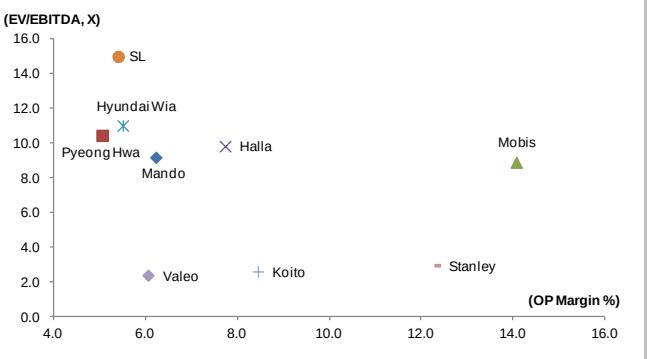
Source: Bloomberg and Leading Research Center

Chart 18. A Peer Group PER vs. ROE (2012)



Source: Bloomberg and Leading Research Center

Chart 19. A Peer Group EV/EBITDA vs. OPM (2012)



Source: Bloomberg and Leading Research Center

Section 8: FX exposure and sensitivity

Insignificant FX risk

Direct export accounts for around 10% of the company's revenue and is settled mostly in USD. After subtracting dollar-based raw material import costs (equivalent to around 4% of revenue), only 6% of the company's revenue is exposed to FX rate changes. In addition, net profit is much higher than operating profit and the company hedges most of its net revenue exposure through FX forward contracts. As such, FX rate changes have a much smaller impact on a net profit level than on an operating level.

Table 7. 2011E FX sensitivity

% chg in KRW/US$ rate	-5%	-1%	Base	1%	5%
Year-end KRW/US$	1,020	1,063	1,074	1,085	1,128
Year-avg KRW/US$	1,028	1,071	1,082	1,093	1,136
Revenue (Wbn)	565.3	567.5	568.1	568.7	570.9
Operating profit (Wbn)	26.1	27.5	27.8	28.2	29.5
NP (Wbn)	96.9	97.9	98.1	98.4	99.4
EPS (W)	2,861	2,891	2,898	2,905	2,935
PER (X)	9.1	9.0	9.0	8.9	8.8
Revenue change (%)	(0.5)	(0.1)	0.0	0.1	0.5
OP change (%)	(6.1)	(1.2)	0.0	1.2	6.1
NP change (%)	(1.3)	(0.3)	0.0	0.3	1.3
EPS change (%)	(1.3)	(0.3)	0.0	0.3	1.3

Source: SL and Leading Research Center

Table 8. 2012F FX sensitivity

% chg in KRW/US$ rate	-5%	-1%	Base	1%	5%
Year-end KRW/US$	960	1,001	1,011	1,021	1,062
Year-avg KRW/US$	979	1,020	1,030	1,040	1,082
Revenue (Wbn)	618.7	621.2	621.8	622.4	624.9
Operating profit (Wbn)	31.7	33.2	33.6	34.0	35.4
NP (Wbn)	115.5	116.6	116.9	117.2	118.3
EPS (W)	3,411	3,444	3,452	3,460.1	3,492.7
PER (X)	7.6	7.5	7.5	7.5	7.4
Revenue change (%)	(0.5)	(0.1)	0.0	0.1	0.5
OP change (%)	(5.6)	(1.1)	0.0	1.1	5.6
NP change (%)	(1.2)	(0.2)	0.0	0.2	1.2
EPS change (%)	(1.2)	(0.2)	0.0	0.2	1.2

Source: SL and Leading Research Center

Table 9. 2013F FX sensitivity

% chg in KRW/US$ rate	-5%	-1%	Base	1%	5%
Year-end KRW/US$	1,014	1,056	1,067	1,078	1,120
Year-avg KRW/US$	1,002	1,044	1,055	1,066	1,108
Revenue (Wbn)	671.8	674.5	675.2	675.9	678.6
Operating profit (Wbn)	37.1	38.8	39.2	39.6	41.2
NP (Wbn)	132.7	133.9	134.2	134.5	135.7
EPS (W)	3,919	3,954	3,963	3,972.1	4,007.4
PER (X)	6.6	6.6	6.5	6.5	6.5
Revenue change (%)	(0.5)	(0.1)	0.0	0.1	0.5
OP change (%)	(5.2)	(1.0)	0.0	1.0	5.2
NP change (%)	(1.1)	(0.2)	0.0	0.2	1.1
EPS change (%)	(1.1)	(0.2)	0.0	0.2	1.1

Source: SL and Leading Research Center

Section 9: Operations overview and earnings outlook

Dominant share in auto lamp supply to the HMC group

HMC group's increasing global market share benefits SL

Even though SL's global sales portion for the HMC group is getting smaller because of the rapid growth of sales to international firms, SL still benefits from the growth of the HMC group. SL continues to dominate auto lamp supply to HMC (80%). SL supplies mainly to Hyundai, while Hyundai Mobis supplies mainly to Kia. There has been some concern since last year that SL may lose its stranglehold on lamp supply to HMC if Mobis increases its lamp production capacity. However, there has been no sign of capacity increase at Mobis, and SL has even secured additional orders from both Hyundai and Kia.

SL supplies lamps to Hyundai and Kia's new cars

SL is scheduled to supply more than 90% of lamps to Hyundai's 3rd plant in Beijing (to be completed next year with a production capacity of 400,000 vehicles). Mobis will supply lamps for Hyundai's additional capacity in Russia (150,000 unit expansion next year). However, due to Mobis' capacity constraints (stemming from the above mentioned supply to Russia next year) and some quality problems, SL will replace Mobis in China to supply lamps for the Hyundai Accent and YF Sonata. SL's lamps will also be installed in some of Kia's new models. While Mobis has been the sole lamp supplier for the K5 (the largest volume model in Kia's mid to large sized passenger sedan lineup) in the domestic market, SL began supplying lamps for the K5s produced at Kia's US plant in July 2011.

Concerns over potential declines in SL's lamp sales to the HMC group are not likely to materialize in the next few years

In the next few years there may be concerns that the HMC group could strategically use more of Mobis' lamps for their new models, resulting in a decline in SL sales. However, Hyundai and Kia have recently completed their lineup overhaul and are likely to focus on facelifts for current models. New models will account for only a small portion of HMC's overall unit sales. Therefore, lamp supply by Mobis for these new models will not lead to declines in SL's sales.

Mobis ' lamp supply for the Kia K9 will have virtually no impact on SL

Mobis will supply lamps for the Kia K9, a new premium class passenger sedan to be introduced in 1H12, replacing the Opirus. This will not have any direct impact on SL lamp sales because premium sedans do not have high sales volumes, and sales of the Opirus have been extremely poor. The K9 will also not be major competition for the Hyundai Genesis or Equus, because it will not be able to occupy a meaningful market share in the premium class sedan market. All of this indicates that SL will continue to dominate lamp supply to HMC.

K9 may have limited competitiveness in the premium sedan segment

It may be too early to have a negative view on the K9, as the model has yet to be introduced. However, Kia once failed miserably when it introduced the K7. The K7 used a similar design as the K5, which is perfect for mid-sized sedans, but not appropriate for upscale vehicles. We believe that Kia will fail if it uses the K5 design again with the K9.

SL to maintain its current market share in lamp supply to the HMC group

We expect no major change in HMC lamp supply market shares for SL and Mobis for the time being, given Mobis' capacity constraints and lower product quality. It will take a long time for Mobis to be a competitive auto lamp manufacturer internationally. Mobis participated in a lamp supply bid for GM's Cadillac brand, but GM decided not to proceed with purchase negotiations after visiting Mobis' plant.

Global OEM

Non-HMC group OEM sales will account for 45% of global sales in 2015F

SL's global sales almost doubled during the past five years and the HMC group was the largest contributor to sales growth. However, international sales have been increasing more rapidly, especially since GM's automobile production has recovered. International orders already account for more than 40% of total orders and SL estimates that its non-HMC sales will generate around 45% of total sales in 2015F.

GM contributing the most to global OEM sales growth

GM contributes the most to SL's non-HMC sales growth, accounting for 70-80% of non-HMC sales. When SL started supplying lamps to GM for the Pontiac LeMans, GM was concerned that SL might not be able to maintain product quality. GM thus tested the quality of SL's lamps through a third party certificate authority for 7 consecutive years. The 7 year testing period might not have been a pleasant time for SL's management, but it allowed GM to trust the quality of SL's products and start a long term business relationship with SL. SL has received the GM supplier of the year award for 15 straight years since 1997.

Chevrolet Malibu to generate total revenue of W300bn for SL

SL started supplying lamps for the 8th generation Chevrolet Malibu this year and total Malibu related additional revenue for the next five years is estimated at W300bn. GM plans to produce 510,000 units of the Malibu globally: 320,000 units in the US, 110,000 units in Korea and 80,000 units in China. A substantial portion of the Malibus produced at GM Korea will be exported. GM Korea has already started Malibu production and SL's subsidiary, SL Seo Bong, has been supplying lamps for the Malibu since October of this year. Production of the Malibu in the US will start in May 2012F.

New Chevrolet Cruze to generate total revenue of W876bn for SL, beginning in 2014F

SL received additional orders worth W876bn from GM to supply lamps (W526bn) and pedal chassis (W350bn) for the next generation of the Chevrolet Cruze. The new Cruze will come into production in 2014F and GM plans to produce 1.14mn units of the Cruze globally. Total Cruze related revenue is estimated at W876bn over five years. SL will be the sole supplier of chassis products for the Cruze and will supply lamps to GM's US, Korea, and China plants, while Hella will supply lamps to GM's plants in Europe.

Tennessee plant will the biggest beneficiary of increasing parts supply to GM

SL's Tennessee plant in the US will be the largest beneficiary of parts supply for the Malibu and the Cruze. The Tennessee plant was initially built to produce chassis products, but completed the construction of lamp production facilities with annual capacity of 500,000 units early this year. The plant is currently supplying lamps for a GM light truck and the Chevrolet Aveo. SL Tennessee plans to add a 300,000 unit lamp capacity in 2012 for the Malibu and another 500,000 unit capacity before 2014 to prepare for the production of the Cruze. All lamp capacity at the Tennessee plant will be for GM specifically. Pedal chassis will be supplied by SL Tennessee, SL in Korea, and SL Shanghai in China. SL will also build a chassis plant in Europe.

Table10. Major parts supply schedule to GM

Model	Malibu	Cruze
Parts	Lamp	Lamp/Chassis
Production region	Global	Global
Est. annual production (unit)	510,000	1,140,000
Est. annual sales (Wbn)	60.0	175.0
Est. parts supply period	2011 ~ 2016	2014 ~ 2018

Source: SL

SL to focus on expanding parts supply to the HMC group and GM

Besides the HMC group and GM, SL supplies to Chrysler, Ford, and VW joint ventures in China, and several Chinese local automakers, including SAIC, Dongfeng, and Chery. While these second tier OEMs currently account for a mere 8% of SL's global sales, they represent tremendous growth potential. However, SL has indicated that it will focus on expanding parts supply to its two major customers for the foreseeable future, rather than actively seeking additional orders from the second tier OEMs.

Driving Assistance System (DAS)

High value added DAS products

In an effort to diversify its product portfolio and to improve long term profitability, SL has recently completed development of high value added DAS products. These include: a night vision system (NVS), a heads-up display (HUD), a lane departure warning system (LDWS) and blind spot detection (BSD) system. DAS products are currently installed in a limited number of upscale passenger vehicle models, but Korean automakers are gradually expanding the applications of these products.

SL plans to generate 3% of global sales through DAS products

Given that Hyundai Mobis and Mando have also developed (or are currently developing) similar DAS products, SL conservatively estimates that it will not be able to capture a dominant market share of DAS supply to HMC. As such, SL plans to focus more on global OEMs, including GM, to secure a customer base for its DAS products. The company expects to generate around 3% of global sales through DAS products by 2015F.

Earnings outlook

Operating profit to increase 24% QoQ in 3Q11E

Despite fewer working days in 3Q11, we estimate that SL's sales will still increase marginally and operating profit will incease 24% QoQ, benefiting from continuous increases in parts supply to HMC and GM. Pretax profit should fall to almost 15% QoQ given that there was no dividend income (W3bn in 2Q11) from subsidiaries in 3Q11E.

Table 11. Quarterly results and outlook

(Wbn)	2Q11	3Q11E	*QoQ (%)*	2010	2011E	2012F	2012F
Revenue	139.8	142.0	*1.6*	525.6	568.1	621.8	675.2
Operating profit	7.2	8.9	*24.1*	19.6	27.8	33.6	39.2
Pretax profit	12.6	10.7	*(14.9)*	95.4	119.7	142.6	163.7
Net income	10.6	9.1	*(14.1)*	82.1	98.1	116.9	134.2
Margin (%)							
Operating	5.1	6.3		3.7	4.9	5.4	5.8
Pretax	9.0	7.5		18.2	21.1	22.9	24.2
Net	7.6	6.4		15.6	17.3	18.8	19.9

Source: SL and Leading Research Center

Revenue and operating profit to increase 8% YoY and 42% YoY, respectively, in 2011E

We estimate that operating profit will increase 42% YoY to W27.8bn in 2011E with revenue growth of 8% YoY to W568.1bn. Operating margin will improve to 4.9% from the 2010 low of 3.7% thanks to lower fixed costs and DAS related R&D expenses. Lower depreciation burden due to the accounting standard change from K-GAAP to IFRS will be another factor for margin improvement.

Pretax profit in 2011E to increase by W24.3bn, far exceeding incremental operating profit of W8.2bn

The growth rate for pretax profit (25.5% YoY) in 2011E will be much lower than for operating profit. However, the incremental pretax profit will be W24.3bn, far exceeding the W8.2bn increase in operating profit. We assumed that the total net income at SL's 15 subsidiaires would increase by 19% YoY to W144.0bn in 2011 from W120.6bn in 2010. Therefore, equity method earnings, the single most important profit item in the company's profit structure, will likely increase to W75.7bn (W80bn estimated by SL itself) from W63.4bn. The company's equity method earnings have continued to increase since 2008 thanks to HMC's increasing global market share, and the recovery of GM unit sales. Equity method earnings reached W32.4bn (under K-GAAP) in 1H11, even though net income at some subsidiaries was not included. The company will recognize equity method earnings on a yearly basis only at the year-end book closing under IFRS.

FX derivative related gain/loss to remain below W1.0bn compared to net loss of W60.2bn between 2008 and 2010

While the company recorded huge losses in 2008 due to currency option (KIKO) contract related losses, this is no longer a concern, as all the remaing KIKO contracts expired in December 2010. Net KIKO related losses between 2008 and 2010 amounted to W60.2bn. The company plans to limit the size of FX forward contracts to hedge its net dollar based revenue. Therefore, we assume that the company's FX forward contract related gain/loss will be less than W1.0bn per year.

Subsidiaries in China contributing the most to equity method earnings

We estimate that the company's operating profit margin will continue to improve in 2012 and 2013 along with stable revenue growth of 8-10% YoY. Net income will increase 17% YoY per annum during the same time period assuming that equity method earnings will reach almost W100bn in 2013F. Subsidiaries in China are contributing 44% of the company's equity method earnings while generating a much smaller sales portion of 18%. US subsidiaries will contribute more to equity method earnings in the future as they will enjoy the fastest profit growth in the long run. Net profit margin at US subsidiaries currently remains low at 2% compared to the high of 15% at the China based subsidiaries. However, the net profit margin from the US should improve with increased parts supply to GM for the Malibu and Cruze.

Table 12. Revenue and estimated equity method earnings breakdowns

	2009	2010	2011F	2012F	2013F
Equity method earnings (Wbn)	50.6	63.4	75.7	88.5	99.7
Estimated equity method earnings breakdown by region (%)					
Domestic	33.2	33.4	34.4	33.9	34.7
China	27.7	43.9	43.8	42.9	42.6
US	10.5	9.2	9.1	11.9	12.7
India	28.6	13.6	12.8	11.2	10.0
Europe	0.0	0.0	0.0	0.0	0.0
Revenue breakdown by region (%)					
Domestic	56.0	57.4	57.1	57.0	56.9
China	19.5	17.5	17.5	17.7	17.9
US	11.8	12.6	13.4	14.0	14.4
India	9.5	7.0	6.7	6.3	5.8
Europe	3.1	5.5	5.3	5.0	5.0

Note: Domestic revenue breakdown excludes SL parent revenue
Source: SL and Leading Research Center

Fiscal year end changed to March from December

Meanwhile, the company has changed its fiscal-year-end from March to December. It will report only 9 months of results (from April through December) for fiscal year 2011. However, we have included results from the first 3 months (Janaury through March, 4Q10) in our 2011 forecasts for consistency and valuation purposes.

Section 10: Valuation – Target price of W31,500

Discount to the industry since 2005

After showing a wider volatility in the early 2000s, SL shares have consistently traded at a discount to the auto parts industry since 2005, when profitability started deteriorating. The discount increased to the historical high of 86% in 2009 reflecting declines in GM auto sales and huge losses from KIKO currency option contracts.

Discount will end soon

However, SL shares have outperformed the industry from 2009 with the discount rapidly disappearing (as shown in the table and charts below). This reflects the growth of the HMC group, GM's recovery, and profit turnaround at both SL and its subsidiaries. The share price performance has been phenomenal, rising 11 fold from 2009. This is a much faster rise than the 4.3 fold increase for the industry stock price index. The market's re-rating on the company has been accelerating this year and we believe the discount is coming to end.

Target price of W31,500 per share with 21.4% upside potential

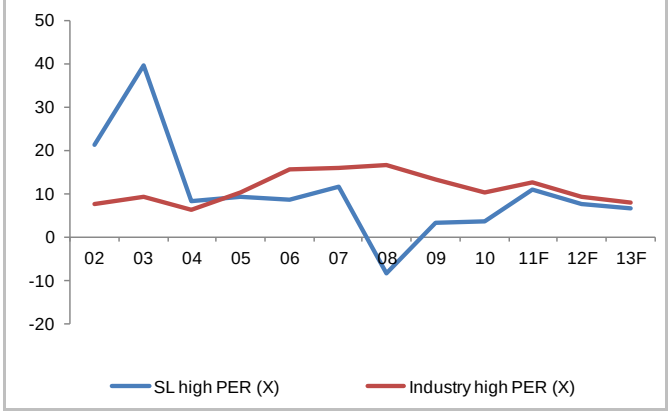
Given its growth potential from successful customer diversification and increasing parts supply to GM, we believe the company deserves a premium to other Korean auto parts manufacturers. However, we conservatively decided not to apply any premium and derived our target price of W31,500 per share by applying the industry average PER of 9.1X to our 2012F EPS of W 3,452.

Table 13. Premium/(discount) in SL PER relative to industry PER

(X)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012F	2013F
SL's high PER	21.1	39.6	8.4	9.2	8.7	11.7	N/A	3.2	3.6	10.9	7.5	6.5
Industry high PER	7.5	9.3	6.3	10.3	15.8	15.9	16.6	13.2	10.4	12.6	9.1	8.1
Premium/(Discount) to industry (%)	**182.2**	**327.3**	**34.0**	**(10.4)**	**(44.6)**	**(26.5)**	**N/A**	**(75.9)**	**(65.7)**	**(12.9)**	**(17.7)**	**(19.1)**
SL's low PER	11.0	2.6	2.1	5.0	4.2	9.1	N/A	0.8	1.3	5.9	7.5	6.5
Industry low PER	4.7	3.4	4.3	5.6	11.7	10.8	8.6	5.5	5.2	7.9	9.1	8.1
Premium/(Discount) to industry (%)	**135.5**	**(25.4)**	**(52.3)**	**(10.9)**	**(64.2)**	**(15.8)**	**N/A**	**(85.9)**	**(76.0)**	**(25.2)**	**(17.7)**	**(19.1)**

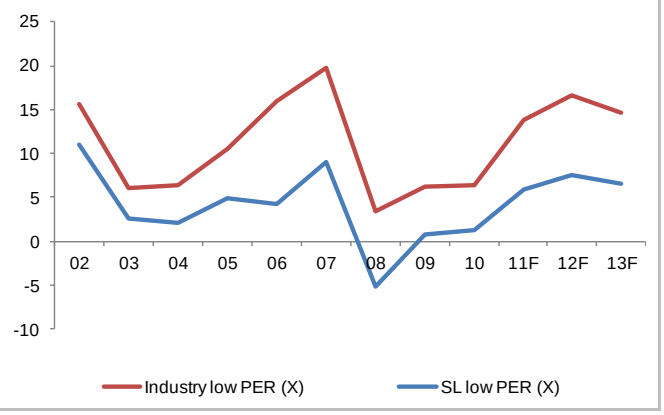
Source: SL, FnGuide and Leading Research Center

Chart 20. Year-high PER trend



Source: SL, Fnguide and Leading Research Center

Chart 21. Year-low PER trend



Source: SL, Fnguide and Leading Research Center

Summary of financials

Income statement

(Wbn)	01	02	03	04	05	06	07	08	09	10	11F	12F	13F
Revenue	**201.0**	**239.0**	**270.9**	**314.8**	**289.6**	**286.2**	**327.0**	**321.6**	**353.5**	**525.6**	**568.1**	**621.8**	**675.2**
% chg YoY	1.8	18.9	13.4	16.2	(8.0)	(1.2)	14.2	(1.7)	9.9	48.7	8.1	9.5	8.6
COGS	182.7	204.6	239.2	283.1	264.8	256.7	282.4	272.4	303.8	461.1	490.8	532.3	574.6
Gross profit	**18.3**	**34.4**	**31.7**	**31.7**	**24.8**	**29.5**	**44.6**	**49.2**	**49.7**	**64.4**	**77.3**	**89.5**	**100.6**
GP margin (%)	9.1	14.4	11.7	10.1	8.6	10.3	13.6	15.3	14.1	12.3	13.6	14.4	14.9
SG&A	**12.1**	**19.5**	**19.8**	**22.4**	**23.4**	**24.7**	**31.9**	**34.4**	**32.5**	**44.8**	**49.4**	**56.0**	**61.4**
Operating income	**6.2**	**14.9**	**11.9**	**9.3**	**1.4**	**4.8**	**12.7**	**14.8**	**17.2**	**19.6**	**27.8**	**33.6**	**39.2**
OP margin (%)	3.1	6.2	4.4	3.0	0.5	1.7	3.9	4.6	4.9	3.7	4.9	5.4	5.8
Non-operating income	19.8	14.3	17.5	31.8	23.5	29.6	33.9	43.5	109.5	88.1	102.7	120.4	136.5
Interest income	4.9	7.1	4.2	3.5	2.8	3.0	4.2	4.8	5.6	8.5	12.5	15.8	20.4
FX related gains	0.8	1.3	0.7	1.1	1.1	0.5	3.3	14.7	10.4	4.2	3.2	2.5	2.0
Equity method gains	8.2	3.8	9.1	14.6	12.9	16.1	22.9	14.3	51.0	63.4	75.7	88.5	99.7
Non-operating expenses	7.0	7.1	7.1	10.1	8.4	8.2	21.2	121.0	18.1	12.3	10.9	11.4	12.0
Interest expenses	2.8	2.8	3.1	3.2	2.6	2.5	2.9	2.3	4.2	4.1	3.6	2.9	2.2
FX related losses	0.8	2.5	2.9	3.0	1.8	1.0	0.7	2.9	9.3	3.5	3.8	4.7	5.1
Equity method losses	0.3	0.0	0.0	1.6	2.7	3.5	7.9	22.2	0.5	0.0	0.0	0.0	0.0
Profit before tax	**19.0**	**22.1**	**22.3**	**31.1**	**16.5**	**26.2**	**25.5**	**(62.7)**	**108.6**	**95.4**	**119.7**	**142.6**	**163.7**
Tax	4.5	5.5	4.5	8.1	3.6	6.5	6.8	(19.1)	22.5	13.3	21.5	25.7	29.5
Tax rate (%)	23.8	25.1	20.3	26.0	21.9	24.9	26.6	30.5	20.7	14.0	18.0	18.0	18.0
Net income	**14.5**	**16.6**	**17.8**	**23.0**	**12.9**	**19.7**	**18.7**	**(43.6)**	**86.1**	**82.1**	**98.1**	**116.9**	**134.2**

Balance sheet

(Wbn)	01	02	03	04	05	06	07	08	09	10	11F	12F	13F
Cash & deposit	23.2	11.6	9.6	7.2	15.6	25.9	26.6	38.3	9.8	24.5	26.7	44.9	65.0
Marketable securities	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
A/R	23.8	38.8	51.7	55.2	56.8	59.0	74.9	52.7	47.5	149.6	155.1	167.9	182.3
Other quick assets	8.9	5.5	12.0	20.0	17.3	28.2	25.7	60.1	46.1	49.3	60.0	80.0	95.3
Total quick assets	120.4	127.5	130.1	137.2	121.7	145.7	152.2	193.7	178.6	380.4	418.4	507.8	608.2
Inventory	5.5	8.6	10.9	12.9	13.1	9.1	22.0	21.8	25.2	31.1	39.8	44.8	49.3
Total current assets	**126.0**	**136.1**	**141.1**	**150.1**	**134.8**	**154.8**	**174.2**	**215.5**	**203.8**	**411.5**	**458.1**	**552.5**	**657.5**
Investments	33.0	48.2	62.7	86.5	88.6	103.4	146.7	146.1	191.9	208.5	219.3	230.1	241.8
Tangible assets	43.7	44.9	52.3	55.5	59.2	60.6	68.5	73.6	74.4	100.2	117.0	117.0	118.0
Others	1.7	4.9	4.1	3.2	2.6	2.3	27.7	16.2	14.5	13.1	32.0	39.0	46.6
Total non-current assets	**78.4**	**97.9**	**119.1**	**145.2**	**150.4**	**166.3**	**242.8**	**235.9**	**280.8**	**321.8**	**368.3**	**386.1**	**406.4**
Total assets	**204.4**	**234.0**	**260.2**	**295.3**	**285.2**	**321.2**	**417.1**	**451.4**	**484.7**	**733.3**	**826.5**	**938.7**	**1,063.9**
Trade Payables	40.1	55.6	54.2	57.5	57.7	65.7	49.7	29.8	28.9	101.8	112.9	126.7	136.2
Short-term borrowings	60.5	62.5	70.0	73.9	55.1	59.1	44.1	48.4	40.7	117.1	100.0	80.0	60.0
Current portion of LT debt	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
Others	11.6	7.1	9.5	13.0	10.3	8.5	11.5	7.0	9.5	14.1	15.0	16.0	18.0
Total current liabilities	**112.2**	**125.1**	**133.8**	**144.4**	**123.1**	**139.4**	**112.5**	**122.7**	**94.3**	**243.5**	**239.9**	**236.7**	**230.8**
Bonds	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
Long-term debt	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.5	1.0	1.5	2.0
Allowance for retirement	2.6	4.8	5.4	5.8	6.4	7.2	7.9	10.1	13.0	1.3	3.0	3.5	4.0
Others	3.5	8.0	9.9	14.2	16.8	3.8	6.8	3.4	3.2	0.8	2.5	3.0	4.0
Total LT liabilities	**6.9**	**13.5**	**16.0**	**20.6**	**23.8**	**25.2**	**39.8**	**70.9**	**49.9**	**37.2**	**42.5**	**47.8**	**51.5**
Total liabilities	**119.0**	**138.6**	**149.8**	**165.0**	**146.9**	**164.6**	**152.3**	**193.7**	**144.2**	**280.7**	**282.4**	**284.5**	**282.3**
Paid-in capital	6.6	5.2	7.9	7.9	7.9	7.9	14.1	16.9	16.9	16.9	16.9	16.9	16.9
Capital surplus	2.7	2.7	0.1	0.1	0.1	0.1	102.5	134.3	134.3	146.4	146.4	146.4	146.4
Retained earnings	71.1	93.3	100.3	119.3	125.9	144.4	160.7	118.5	203.0	283.8	375.2	485.3	612.7
Capital adjustments	5.0	(5.8)	2.1	3.1	4.5	4.3	(12.5)	(12.0)	(13.7)	5.5	5.5	5.5	5.5
Total shareholder's eq.	**85.3**	**95.4**	**110.3**	**130.2**	**138.3**	**156.6**	**264.8**	**257.7**	**340.5**	**452.7**	**544.0**	**654.2**	**781.6**

Cashflow analysis

(Wbn)	01	02	03	04	05	06	07	08	09	10	11F	12F	13F
Net profit	**14.5**	**16.6**	**17.8**	**23.0**	**12.9**	**19.7**	**18.7**	**(43.6)**	**86.1**	**82.1**	**98.1**	**116.9**	**134.2**
add non-cash expenses	**11.0**	**14.7**	**13.1**	**17.5**	**18.0**	**17.5**	**37.1**	**116.2**	**21.4**	**26.3**	**21.8**	**21.4**	**22.0**
Depreciation	8.4	6.2	7.3	8.0	7.3	7.5	8.1	8.8	8.1	11.1	11.8	11.0	10.5
Equity method losses	0.3	0.0	0.0	1.6	2.7	3.5	7.9	22.2	0.5	0.0	0.0	0.0	0.0
Other non-cash exp.	2.4	7.8	5.2	8.9	10.2	10.0	28.0	105.4	11.3	13.2	8.8	9.2	10.3
subtract non-cash inc.	**11.7**	**5.4**	**11.5**	**23.2**	**17.4**	**22.8**	**25.2**	**24.4**	**79.7**	**73.5**	**86.9**	**101.0**	**112.2**
Equity method gains	8.2	3.8	9.1	14.6	12.9	16.1	22.9	14.3	51.0	63.4	75.7	88.5	99.7
Other non-cash income	3.4	1.5	2.4	8.6	4.5	6.7	2.3	10.2	28.6	10.1	11.2	12.5	12.5
Add ch in op assets & liabs	(3.9)	(6.8)	(20.5)	(1.7)	(4.1)	3.0	(19.4)	(32.6)	(10.6)	(45.3)	11.9	14.0	15.6
Investment in WC	6.1	2.6	16.6	2.2	1.6	(9.7)	44.8	(2.6)	(1.0)	35.1	3.1	4.0	9.4
Other ch in assets & liabs	(2.1)	4.1	3.9	0.5	2.5	6.7	(25.4)	35.2	11.6	10.2	15.0	18.0	25.0
Cash from operation	**9.9**	**19.1**	**(1.0)**	**15.7**	**9.3**	**17.4**	**11.2**	**15.5**	**17.2**	**(10.4)**	**45.0**	**51.3**	**59.6**
Subtract capital exp.	16.9	9.1	14.8	11.5	11.0	9.4	9.2	13.7	9.6	23.6	28.6	11.0	11.5
Free cash flow	**(7.0)**	**10.0**	**(15.8)**	**4.2**	**(1.7)**	**8.0**	**1.9**	**1.8**	**7.7**	**(34.0)**	**16.4**	**40.3**	**48.1**
Dividend	1.3	1.3	1.6	2.4	2.4	2.4	2.4	4.0	1.6	4.7	6.8	6.8	6.8
Net investments	(1.9)	6.0	6.9	11.3	0.9	2.1	1.0	0.1	(2.7)	(3.6)	10.8	10.8	11.7
Share issues	0.0	(10.2)	0.0	0.0	0.0	0.0	0.0	34.5	0.0	0.0	0.0	0.0	0.0
Increase in debt	17.0	2.0	7.4	3.7	(18.8)	4.0	(15.0)	4.4	(7.8)	76.4	(16.6)	(19.5)	(19.5)
Others	(12.6)	6.0	(14.8)	(3.3)	(32.2)	(2.7)	(17.2)	24.9	29.5	26.7	(20.0)	(15.0)	(10.0)
Net cash flow	**23.2**	**(11.6)**	**(2.0)**	**(2.4)**	**8.5**	**10.2**	**0.8**	**11.7**	**(28.5)**	**14.6**	**2.2**	**18.2**	**20.1**
Beginning cash	0.0	23.2	11.6	9.6	7.2	15.6	25.9	26.6	38.3	9.8	24.4	26.7	44.9
Ending cash	23.2	11.6	9.6	7.2	15.6	25.9	26.6	38.3	9.8	24.5	26.7	44.9	65.0

Key stability ratios

	01	02	03	04	05	06	07	08	09	10	11F	12F	13F
Current ratio	112.3	108.8	105.4	103.9	109.5	111.1	154.8	175.5	216.3	169.0	191.0	233.5	284.9
Quick ratio	41.8	40.3	45.8	43.2	58.9	60.9	90.2	74.1	60.8	71.5	75.8	89.9	107.2
Inventory holding period (days)	11.0	12.6	14.9	15.4	17.9	15.8	20.1	29.4	28.3	22.3	26.4	29.0	29.9
A/R collection period (days)	38.3	47.8	60.9	62.0	70.6	73.9	74.8	72.4	51.7	68.4	97.9	94.8	94.7
A/P period (days)	80.8	84.1	83.0	71.6	79.3	89.1	71.3	53.3	34.9	51.1	78.4	81.4	82.8
Interest bear debt (Wbn)	61.3	63.3	70.7	74.4	55.6	59.6	44.6	48.9	41.2	117.6	101.0	81.5	62.0
Cash, eq. & LT deposits (Wbn)	89.2	83.3	66.4	64.0	47.6	58.5	51.6	80.9	90.0	181.6	203.3	259.9	330.6
Net int. bear debt (Wbn)	(27.9)	(20.0)	4.3	10.5	8.0	1.1	(7.0)	(32.0)	(48.9)	(64.0)	(102.3)	(178.4)	(268.6)
Net debt/equity (%)	(32.7)	(21.0)	3.9	8.0	5.8	0.7	(2.7)	(12.4)	(14.3)	(14.1)	(18.8)	(27.3)	(34.4)
Liability/equity (%)	139.6	145.4	135.8	126.7	106.2	105.1	57.5	75.1	42.3	62.0	51.9	43.5	36.1
Interest coverage (X)	2.2	5.2	3.8	3.0	0.6	1.9	4.4	6.5	4.1	4.8	7.8	11.5	17.9

Valuations and margins

	01	02	03	04	05	06	07	08	09	10	11F	12F	13F
EV/EBITDA (X)	0.4	11.6	20.8	23.3	45.3	33.3	33.2	33.0	30.3	24.8	18.6	15.0	11.8
EPS (W)	11,030	1,582	1,131	1,463	819	1,250	661	(1,288)	2,541	2,424	2,898	3,452	3,963
EPS y-y (%)	67.7	(85.7)	(28.5)	29.3	(44.0)	52.7	(47.1)	N/A	N/A	(4.6)	19.5	19.1	14.8
PER (X)	2.4	16.4	22.9	17.7	31.7	20.8	39.2	N/A	10.2	10.7	9.0	7.5	6.5
BVPS (W)	65,081	16,173	8,419	8,282	8,797	9,956	12,039	7,980	10,055	13,367	16,065	19,317	23,080
P/BVPS (X)	0.4	1.6	3.1	3.1	2.9	2.6	2.2	3.3	2.6	1.9	1.6	1.3	1.1
Dividend/sh (W)	1,000	150	150	150	150	150	150	50	150	200	200	200	200
Dividend yield (%)	3.9	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.6	0.8	0.8	0.8	0.8
ROE (%)	18.6	18.4	17.3	19.1	9.6	13.3	8.9	(16.7)	28.8	20.7	19.7	19.5	18.7
ROA (%)	7.8	7.6	7.2	8.3	4.4	6.5	5.1	(10.0)	18.4	13.5	12.6	13.2	13.4
GP margin (%)	9.1	14.4	11.7	10.1	8.6	10.3	13.6	15.3	14.1	12.3	13.6	14.4	14.9
OP margin (%)	3.1	6.2	4.4	3.0	0.5	1.7	3.9	4.6	4.9	3.7	4.9	5.4	5.8
NP margin (%)	7.2	6.9	6.6	7.3	4.4	6.9	5.7	(13.6)	24.3	15.6	17.3	18.8	19.9
EBITDA margin (%)	7.4	9.1	7.3	5.7	3.2	4.3	6.7	8.0	7.7	6.2	7.4	7.5	7.7
ROIC (%)	10.2	16.8	10.0	5.4	0.8	2.4	4.5	4.3	5.3	5.0	5.5	6.0	6.5
WACC (%)	8.6	7.4	7.2	9.3	8.6	8.7	6.7	7.1	7.2	9.9	11.4	13.7	16.1
ROIC less WACC (%)	1.6	9.4	2.8	(3.9)	(7.8)	(6.3)	(2.2)	(2.8)	(1.9)	(4.9)	(5.9)	(7.7)	(9.6)

▶ Compliance Notice

This report was produced by Leading Investment & Securities Co., Ltd. 4th Floor, W Bank Bldg., 90-7, Nonhyeon-Dong, Gangnam-Gu, Seoul 135-818, Korea. Tel: +82 2 2009 7184
This Security Research Document is independent and covered by the Security Research Conflict Management Policy of ***Leading Investment & Securities Co., Ltd.***

Analyst Certification
The analyst(s) responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report.

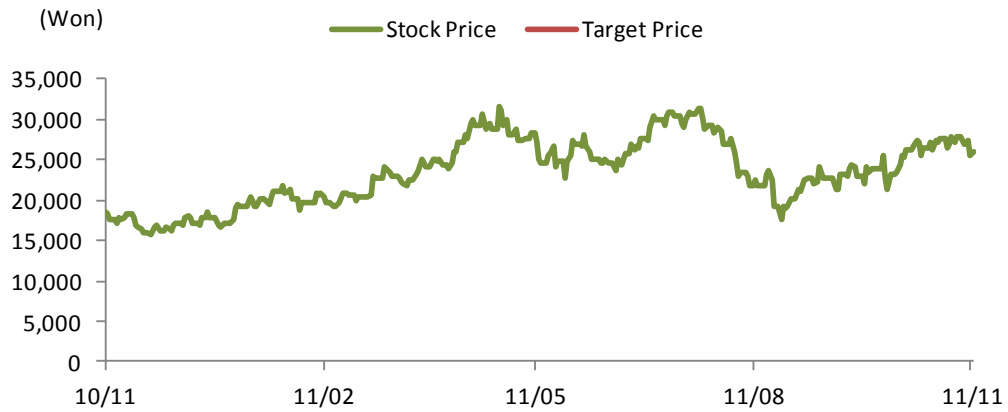
Leading Investment & Securities Co., Ltd. does not own more than 1%of the subject company's outstanding shares.
Leading Investment & Securities Co., Ltd. does not have any special interest with the subject company

This report has been prepared by ***Leading Investment & Securities Co****. and is for information purposes only. This report does not constitute an offer, invitation or inducement to invest in securities or other investments or otherwise engage in investment activity. Neither the information contained in this report nor any further written or oral information made available in relation thereto will form the basis of any contract.*
This report does not purport to be comprehensive or to contain all the information on which a prospective investor may need in order to make an investment decision. The information contained herein is based upon publicly available information and sources which we believe to be reliable, but we do not represent it as accurate or complete. The recipient of this report must make its own investigation and assessment of the information presented herein. The information contained herein is believed to be accurate as at the date of this report but no representation, warranty or undertaking, express or implied, is or will be made or given and no responsibility or liability is or will be accepted by ***Leading Investment & Securities Co****. or any of its directors, officers, employees, agents or advisors, in relation to the accuracy or completeness of this report or any other written or oral information made available in relation thereto. Any responsibility or liability for any such information is expressly disclaimed.*
This report is private and is being made available to the recipient on the understanding that it will be kept confidential and that the recipient shall not copy, reproduce, distribute or pass this report to third parties in whole or in part at any time. This report is only intended for clients of ***Leading Investment & Securities Co*** *and is not for publication in the press nor is it being issued or distributed to persons who are private customers.*
In furnishing this report, ***Leading Investment & Securities Co.*** *undertakes no obligation to provide the recipient with access to any additional information, or to update, or to correct any inaccuracies which may become apparent in this report.*
Leading Investment & Securities Co. *is authorised and regulated by the Financial Services Authority in the conduct of its designated investment business in Korea.*

▶ Ratings and target price history in past two years

SL Corp (005850 KS)	
Date	2011-11-14
Rating	BUY
Target Price	W31,500

▶ Target price changes in past two years



▶ Investment period and ratings

Company	
BUY	The stock is expected to outperform the market by at least 10%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 10%p over the next 12 months .
SELL	The stock is expected to underperform the market by at least 10%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.

©. 2011 ***Leading Investment & Securities Co****. All rights reserved*