

Buy

Target price
W245000.00

Price
W243500.00

Equity | Korea | Chemicals Flashnote

Kumho Petrochemical

Overhang concern eased

Mr. Sam-gu Park and his son disposed 10.4% stake in Kumho Petrochem via block trading last night. This eased overhang concern which suppressed share price in the past two months. In addition, bottoming-out butadiene price is likely to bring restocking demand imminently in China. We reiterate Buy.

Overhang concern eased

- Mr. Sam-gu Park and his son, Mr. Sae-chang Park, sold their 10.4% stake in Kumho Petrochem via block trading yesterday after the market close. The settled price was W154,000, or 7% discount from yesterday's closing price of W165,500.
- This initiated a separation Kumho Petrochem group (on which Mr. Chan-gu Park controls) from Kumho Asian group (on which Mr. Sam-gu Park controls).
- With the sale of Asiana Airline, Kumho Petrochem group will complete the split from Kumho Asiana group. Kumho Petrochem currently owns 13.5% stake in Asiana Airline. The acquisition cost was W106bn (W4,294/shr) and yesterday's closing price was W7,130/shr. We expect more than W70bn disposal gain. We think the company is not urgent to dispose this; however, we believe it will take place in 2012.

Restocking demand from tyre makers likely to be imminent

- Butadiene price has bounced back to US\$2,001/tonne three weeks after it hit the bottom at US\$1,560/tonne in the week of Nov 4.
- Rising butadiene price is likely to bring restocking demand imminently especially in China.
- According to the channel checks, butadiene rubber (BR) price is about to move up from the current US\$3,000/tonne. SBR price already rose to US\$2,800/tonne from US\$2,600/tonne in the last three weeks.
- Kumho Petrochem expects around 15% OPM in Dec. Oct is the worst month; however, even in Oct OPM was above 10%. We maintain our quarterly OPM forecast of 13.1% in synthetic rubber in 4Q11.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Wb)	2802	3886	5243	5237	5218
EBITDA (Wb)	218.0	468.3	844.1	911.6	822.8
Reported net profit (Wb)	-614.8	641.4	608.1	645.9	653.7
Normalised net profit (Wb)	-614.8	471.4	608.1	645.9	653.7
Normalised EPS (W)	-24183	18542	21126	21199	21457
Dividend per share (W)	0	1000	1250	1300	1300
Dividend yield (%)	0.00	0.60	0.76	0.79	0.79
Normalised PE (x)	-6.84	8.93	7.83	7.81	7.71
EV/EBITDA (x)	29.2	13.2	6.65	5.72	5.85
Price/book value (x)	7.86	4.78	2.72	2.05	1.64
ROIC (%)	2.70	10.5	20.1	18.9	15.7

Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Dec, fully diluted

Analysts

Angela Choi
+82 2 2131 6459
angela.ej.choi@rbs.com

Hyung Jin Kim
+82 2 2131 6545
hyungjin.kim@rbs.com

6/F, Seoul Finance Center, 84,
Taepyeongno 1-ga, Jung-gu,
Seoul 100-768, South Korea

<http://research.rbsm.com>

Important disclosures can be found in the Disclosures Appendix.

Income statement

Wb	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	2802	3886	5243	5237	5218
Cost of sales	-2488	-3306	-4262	-4197	-4266
Operating costs	-96.2	-112.1	-137.3	-128.3	-128.7
EBITDA	218.0	468.3	844.1	911.6	822.8
DDA & Impairment (ex gw)	-101.8	-108.7	-112.4	-123.0	-123.5
EBITA	116.2	359.6	731.7	788.5	699.3
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	116.2	359.6	731.7	788.5	699.3
Net interest	-105.6	-116.8	-118.1	-80.3	-52.5
Associates (pre-tax)	-733.5	145.0	198.9	153.9	217.2
Forex gain / (loss)	26.8	3.91	-29.1	-29.0	-18.9
Exceptionals (pre-tax)	n/a	170.0	n/a	n/a	n/a
Other pre-tax items	-145.8	203.4	-3.65	-5.17	-6.90
Reported PTP	-841.9	765.1	779.7	828.1	838.1
Taxation	227.0	-123.7	-171.5	-182.2	-184.4
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	-0.00	0.00	-0.00	0.00
Reported net profit	-614.8	641.4	608.1	645.9	653.7
Normalised Items Excl. GW	0.00	170.0	0.00	0.00	0.00
Normalised net profit	-614.8	471.4	608.1	645.9	653.7

Source: Company data, RBS forecasts

year to Dec

Balance sheet

Wb	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	80.4	109.0	71.0	108.3	451.7
Other current assets	695.4	781.6	988.4	959.7	954.8
Tangible fixed assets	1357	1423	1449	1526	1531
Intang assets (incl gw)	35.6	26.4	27.7	28.5	29.1
Oth non-curr assets	1032	1096	1427	1586	1809
Total assets	3200	3436	3964	4208	4776
Short term debt (2)	769.9	420.5	420.5	420.5	420.5
Trade & oth current liab	1289	1274	1096	693.6	775.3
Long term debt (3)	585.1	858.4	594.9	635.5	507.2
Oth non-current liab	20.9	2.07	2.07	2.07	2.07
Total liabilities	2665	2555	2113	1752	1705
Total equity (incl min)	535.1	880.3	1851	2457	3071
Total liab & sh equity	3200	3436	3964	4208	4776
Net debt	2150	1951	1408	1007	604.2

Source: Company data, RBS forecasts

year ended Dec

Cash flow statement

Wb	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	218.0	468.3	844.1	911.6	822.8
Change in working capital	-49.0	23.3	-128.8	30.5	17.8
Net interest (pd) / rec	-105.6	-116.8	-118.1	-80.3	-52.5
Taxes paid	n/a	n/a	n/a	n/a	n/a
Other oper cash items	218.3	-121.5	-211.3	-216.3	-206.4
Cash flow from ops (1)	281.7	253.2	385.8	645.5	581.6
Capex (2)	-264.1	-174.9	-130.0	-190.0	-120.0
Disposals/(acquisitions)	-199.7	125.2	-131.7	-3.69	-3.88
Other investing cash flow	-4.55	-3.15	-14.7	-15.0	-15.3
Cash flow from invest (3)	-468.4	-52.8	-276.4	-208.7	-139.1
Incr / (decr) in equity	0.00	0.00	398.1	0.00	0.00
Incr / (decr) in debt	129.3	-91.9	-520.1	-363.5	-59.5
Ordinary dividend paid	-17.3	0.00	-25.4	-36.0	-39.6
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	142.0	-79.9	0.00	0.00	0.00
Cash flow from fin (5)	253.9	-171.8	-147.4	-399.5	-99.1
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	67.3	28.6	-38.0	37.3	343.4
Equity FCF (1+2+4)	17.6	78.3	255.8	455.5	461.6

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Dec

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 30 Nov 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	838 (11)	540 (4)
Hold	456 (7)	259 (3)
Sell	93 (5)	50 (0)
Total (IB%)	1387 (9)	849 (3)

Source: RBS

Trading recommendations (as at 30 Nov 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	2 (0)	2 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	2 (0)	2 (0)

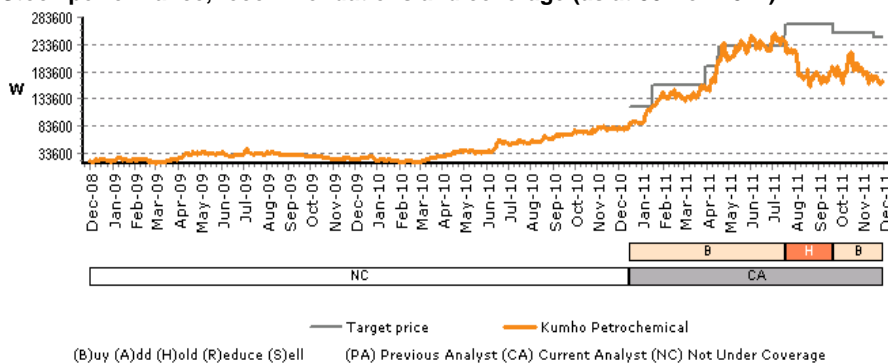
Source: RBS

Valuation and risks to target price

Kumho Petrochemical (RIC: 011780.KS, Rec: Buy, CP: W165500, TP: W245000): We value Kumho on a sum-of-the-parts basis. The downside risks to our target price are a surge in the butadiene price, increasing raw material costs for synthetic rubber and a decreasing self-sufficiency ratio in butadiene due to the renewal of existing contracts with major suppliers. The key upside risk is a strong price spread in synthetic rubbers led by tyre replacement demand in China.

Kumho Petrochem coverage data (011780.KS, 011780 KS)

Stock performance, recommendations and coverage (as at 30 Nov 2011)



Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Price perf (at Close 29 Nov 2011)

	(1M)	(3M)	(12M)
Price (W)	188500	183500	76900
Absolute (%)	-12.2	-9.8	115.2
Rel market (%)	-8.8	-11.1	119.7
Rel sector (%)	-2.7	4.6	151.1

Source: Bloomberg
Market: Korea Composite
Sector: Commodity Chemicals

Angela Choi started covering this stock on 14 Dec 10. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Regulatory disclosures

RBS beneficially own 1% or more of a class of common equity securities of this company.: **011780.KS**

Global disclaimer

© Copyright 2011 The Royal Bank of Scotland plc and affiliated companies ("RBS"). All rights reserved.

This Material was prepared by the legal entity named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this Material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither RBS nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this Material. This Material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without RBS' prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this Material is intended solely for distribution to professional and institutional investors.

THIS MATERIAL IS CLASSIFIED AS INVESTMENT RESEARCH AS DEFINED BY THE FINANCIAL SERVICES AUTHORITY.

Australia: This Material is issued in Australia by The Royal Bank of Scotland plc (ABN 30 101 464 528), 88 Phillip Street, Sydney NSW 2000, Australia which is authorised and regulated in Australia by the Australian Securities and Investments Commission (AFS License No. 241114) and the Australian Prudential Regulation Authority.

Canada: The securities mentioned in this Material are available only in accordance with applicable securities laws and many not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This Material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the Material. Any recommendations contained in this Material must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this Material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: Royal Bank of Scotland N.V. is authorised and regulated in the Netherlands by De Nederlandsche Bank. In addition, Royal Bank of Scotland N.V. Danish branch is subject to local supervision by Finanstilsynet, The Danish Financial Supervisory Authority.

Hong Kong: Material in connection only with equity securities is distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong. All other material is distributed in Hong Kong by The Royal Bank of Scotland plc (Hong Kong branch), 30/F AIA Central, 1 Connaught Road Central, Hong Kong, which is regulated by the Hong Kong Monetary Authority.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs"). Any recipient of this Material wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of The Royal Bank of Scotland N.V..

Italy: Persons receiving this Material in Italy requiring further information should contact The Royal Bank of Scotland N.V. Milan Branch.

Japan: This report is being distributed in Japan by RBS Securities Japan Limited to institutional investors only.

South Korea: This Material is being distributed in South Korea by, and is attributable to, RBS Asia Limited (Seoul) Branch which is regulated by the Financial Supervisory Service of South Korea.

Malaysia: RBS research, except for economics and FX research, is not for distribution or transmission into Malaysia.

Netherlands: the Authority for the Financial Markets ("AFM") is the competent supervisor.

Russia: This Material is distributed in the Russian Federation by RBS and "The Royal Bank of Scotland" ZAO (general banking license No. 2594 issued by the Central Bank of the Russian Federation, registered address: building 1, 17 Bolshaya Nikitskaya str., Moscow 125009, the Russian Federation), an affiliate of RBS, for information purposes only and is not an offer to buy or subscribe or otherwise to deal in securities or other financial instruments, or to enter into any legal relations, nor as investment advice or a recommendation with respect to such securities or other financial instruments. This Material does not have regard to the specific investment purposes, financial situation and the particular business needs of any particular recipient. The investments and services contained herein may not be available to persons other than 'qualified investors' as this term is defined in the Federal Law "On the Securities Market".

Singapore: Material in connection only with equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited ("RBS Asia Securities") (RCB Regn No. 198703346M) under MICA (P) 155/08/2011. All other material is distributed in Singapore by The Royal Bank of Scotland plc (Singapore branch) ("RBS plc Singapore") under MICA (P) 158/06/2011. Both entities are regulated by the Monetary Authority of Singapore. Singapore recipients should contact RBS Asia Securities or RBS plc Singapore at +65 6518 8888 for additional information. This material and the securities, investments or other financial instruments referred to herein are not in any way intended for, and will not be available to, investors in Singapore unless they are accredited investors, expert investors and institutional investors (as defined in Section 4A(1) of the Securities and Futures Act (Cap. 289) of Singapore ("SFA")). Further, without prejudice to any of the foregoing disclaimers, where this material is distributed to accredited investors or expert investors, RBS Asia Securities and RBS plc Singapore are exempted by Regulation 35 of the Financial Advisers Regulations from the requirements in Section 36 of the Financial Advisers Act (Cap.110) of Singapore ("FAA") mandating disclosure of any interest in securities referred to in this material, or in their acquisition or disposal. Recipients who are not accredited investors, expert investors or institutional investors should seek the advice of their independent financial advisors prior to making any investment decision based on this document or for any necessary explanation of its contents.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by RBS Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

Turkey: The Royal Bank of Scotland N.V. is regulated by Banking Regulation and Supervision Authority (BRSA).

UAE and Qatar: This Material is produced by The Royal Bank of Scotland N.V and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

Dubai International Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed at "Professional Clients" as defined by the Dubai Financial Services Authority (DFSA). No other person should act upon it. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Professional Client". This Material has not been reviewed or approved by the DFSA.

Qatar Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed solely at persons who are not "Retail Customer" as defined by the Qatar Financial Centre Regulatory Authority. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Business Customer" or "Market Counterparty".

United States of America: This Material is intended for distribution only to "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended (the "Exchange Act"), and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these Materials by its acceptance hereof represents and agrees that it shall not distribute or provide these Materials to any other person. Any U.S. recipient of these Materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this Material, should contact and place orders solely through a registered representative of RBS Securities Inc., 600 Washington Boulevard, Stamford, CT, USA. Telephone: +1 203 897 2700. RBS Securities Inc. is an affiliated broker-dealer registered with the U.S. Securities and Exchange Commission under the Exchange Act, and a member of the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The research analyst or analysts 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. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at research.rbsm.com.

Disclosures regarding companies covered by us can be found on our research website. Please use research.rbsm.com for Equity Research and <http://strategy.rbsm.com/disclosures> for FICC Research.

Our policy on managing research conflicts of interest can be found at <https://research.rbsm.com/Disclosure/Disclosure.AspX?MI=2>.

Should you require additional information please contact the relevant research team or the author(s) of this Material.