

GNAM Investment Competition 2018-19

SeAH 세아베스틸 Company Analysis



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Company Overview

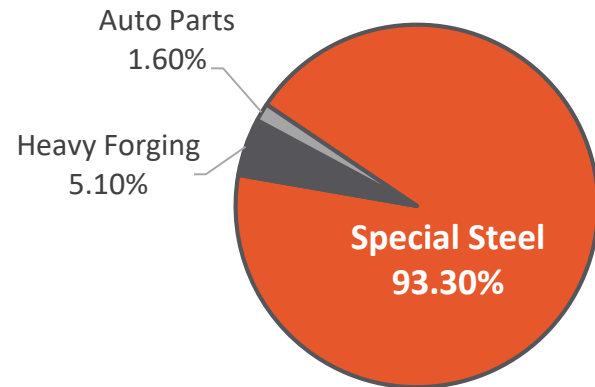
SeAH Besteel is a special steel manufacturing company founded in 1955.

It is part of a SeAH Group, which is divided between SeAH Holdings and SeAH Steel, both of which holds SeAH Besteel shares.

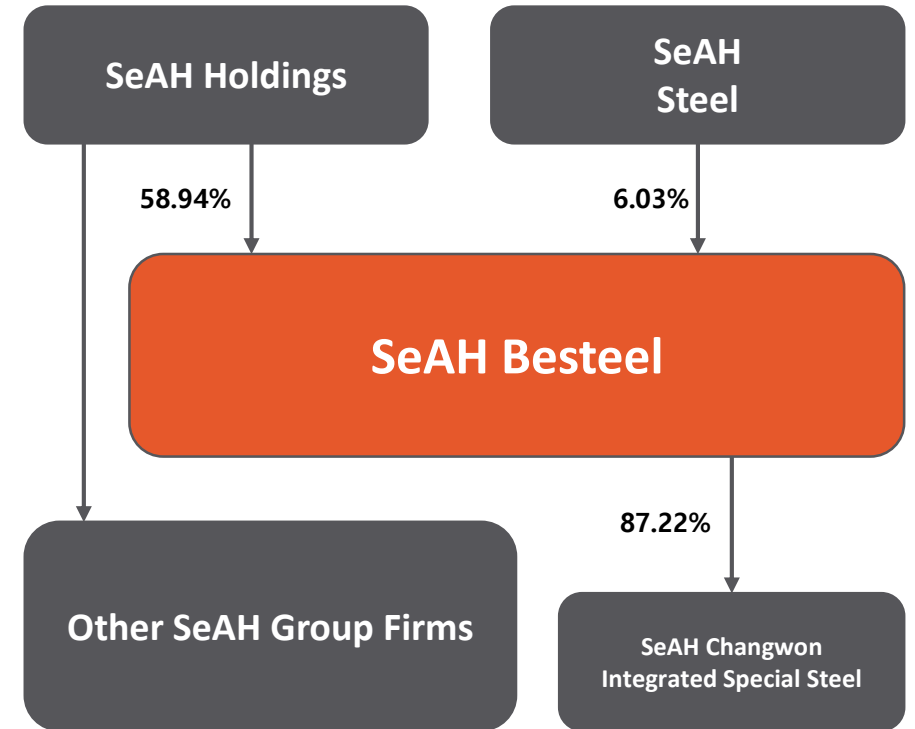
Company Profile

Bloomberg Code	001430:KS
Sector	Steel-Specialty
3m Avg Price	KRW 19,160.17
3m Avg Volume	51,898.66 Shares
52wk Price Range	KRW 17,500
52wk Beta	0.53
Market Cap	KRW 581 billion

Sales Breakdown



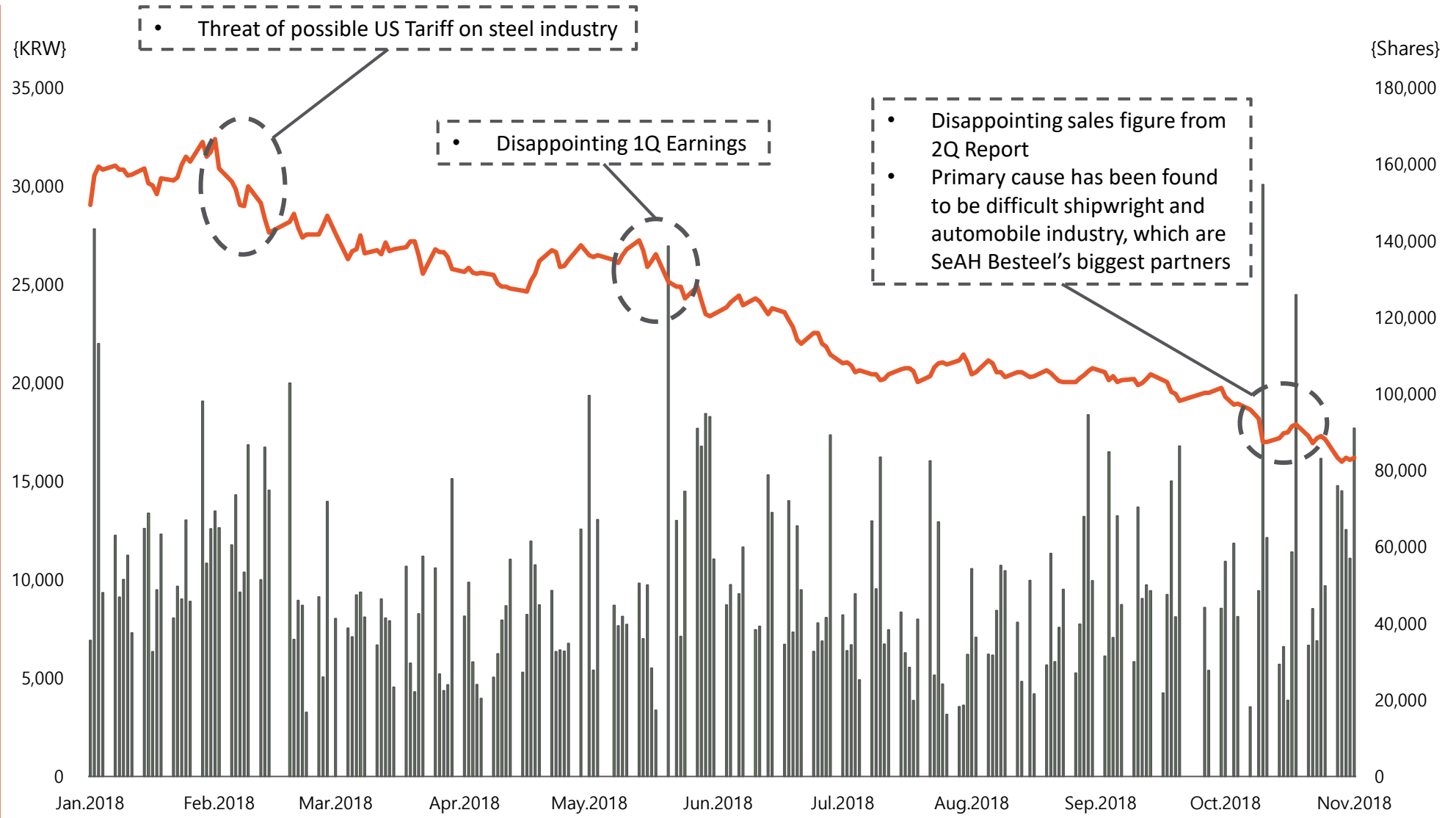
Corporate Structure



Equity Performance (2018)

SeAH Besteel has been showing consistent downturn due to disappointing sales and operating profit.

Main cause of this found to be deployment of 52-hour week increasing costs, losing MS to Hyundai Steel, suffering shipwright and automobile industry, and threat of US Tariffs.



Analysis – Valuation Projection

SeAH Steel is currently the only company with the capacity and capability to fill the order for the construction of Korea-Russia natural gas pipeline in the region.

After inter-Korea Summit in April, the easing of North-South tension is making this pipeline increasingly more plausible.

If the contract is underway, it is likely that SeAH Steel will reach out to its associate SeAH Besteel to contract raw materials for production of pipes

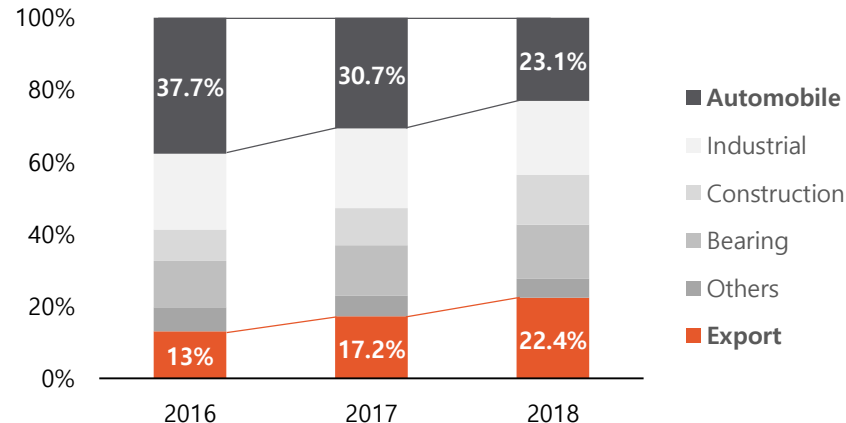
Analysis 1: Korea-Russia Pipeline



(Source: Huffington Post)

- After inter-Korea Summit in April 2018, North-South relations has never been better
- Possibility of Korea-Siberia natural gas pipeline is feasible and win-win for all parties
- Assuming that pipeline accommodates North Korea, 1505km pipe has to be constructed
- The steel required for the pipeline is difficult to produce, with only SeAH Steel near enough to be cost effective
- SeAH Steel will most likely source its specially treated steel needed from SeAH Besteel

Analysis 2: Focusing Outwards



- Since 2016, SeAH Besteel's sales of automobiles has been reducing, but is matched by increasing sales in exports
- It can be seen that SeAH Besteel is trying to move away from saturated automobile steel production to more diverse sales portfolio
- Despite this effort, however, it seems clear from reports thus far that the transition was not fully implemented in 2018

DCF Assumptions

- Korea-Russia natural gas pipeline has been projected to take 30 years in 2010. Given the advancement in technology and considering raw materials for construction is purchased in advance, the contract for this construction will be set at 10 years.
- It will be assumed that SeAH Steel, when producing pipes necessary for this contract, will contract exclusively with SeAH Besteel for all raw material needs.
- The construction of pipeline will begin in 2019, meaning that the extra sales for SeAH Steel and Besteel will end by 2028.
- All growth will be projected in 3-year rolling return to smoothen out fluctuations.

DCF Valuation

The “Extra Sales” indicate steel order for the Korea-Russia pipeline by SeAH Steel.

The revenue was measured by the cost of standard HR Coil which SeAH Steel uses. This price increased at a 3-year rolling growth to smoothen volatile market pricing.

Sales Projection

{KRW millions}	2018E	2019E	2020E	2021E	2022E	
Total Revenue	3,346,875	3,693,410	4,079,219	4,451,470	4,859,642	
Current Sales	3,346,875	3,603,759	3,970,477	4,327,354	4,714,502	
Extra Sale (Pipeline)	0	89,651	108,741	124,116	145,139	
	2023E	2024E	2025E	2026E	2027E	2028E
	5,326,740	5,823,627	6,371,164	6,975,208	7,633,533	8,357,048
	5,156,263	5,625,570	6,139,719	6,704,807	7,318,185	7,988,815
	170,477	198,057	231,445	270,400	315,348	368,233

FCFF Calculation

{KRW millions}	2017	2018 E	2019 E	2020 E	2021 E	2022 E
NOPAT	168,986	305,475	316,381	357,125	392,914	424,190
(Capex)	83,037	652,089	351,858	431,417	587,388	539,388
Dep & Amort	157,010	637,702	446,256	594,933	709,808	693,243
(Change in NWC)	104,021	128,998	88,346	103,147	119,607	113,724
FCFF	138,938	162,090	322,433	417,494	395,727	464,321
	2023 E	2024 E	2025 E	2026 E	2027 E	2028 E
	467,852	512,050	559,476	613,746	672,082	736,113
	619,157	697,249	736,839	817,530	897,156	976,063
	799,265	879,590	942,576	1,044,156	1,141,762	1,245,804
	134,590	147,006	157,475	175,477		209,683
	513,369	547,385	607,738	664,895	724,914	796,171

DCF Valuation

Based on publically available information, it was impossible to determine the value of the company with DCF due to multiple reasons.

However, the valuation showed the potential growth that SeAH Besteel had if this contract came to fruition.

Sensitivity Analysis

WACC	{KRW}	Terminal Growth				
		-1%	0%	1%	2%	3%
3.50%		432,174	532,102	711,972	1,131,669	3,230,154
4.50%		336,147	393,908	484,675	648,055	1,029,276
5.50%		270,451	306,807	359,320	441,841	590,379
6.50%		222,893	247,154	280,236	328,022	403,114
7.50%		187,023	203,920	226,016	256,147	299,669

Limitations

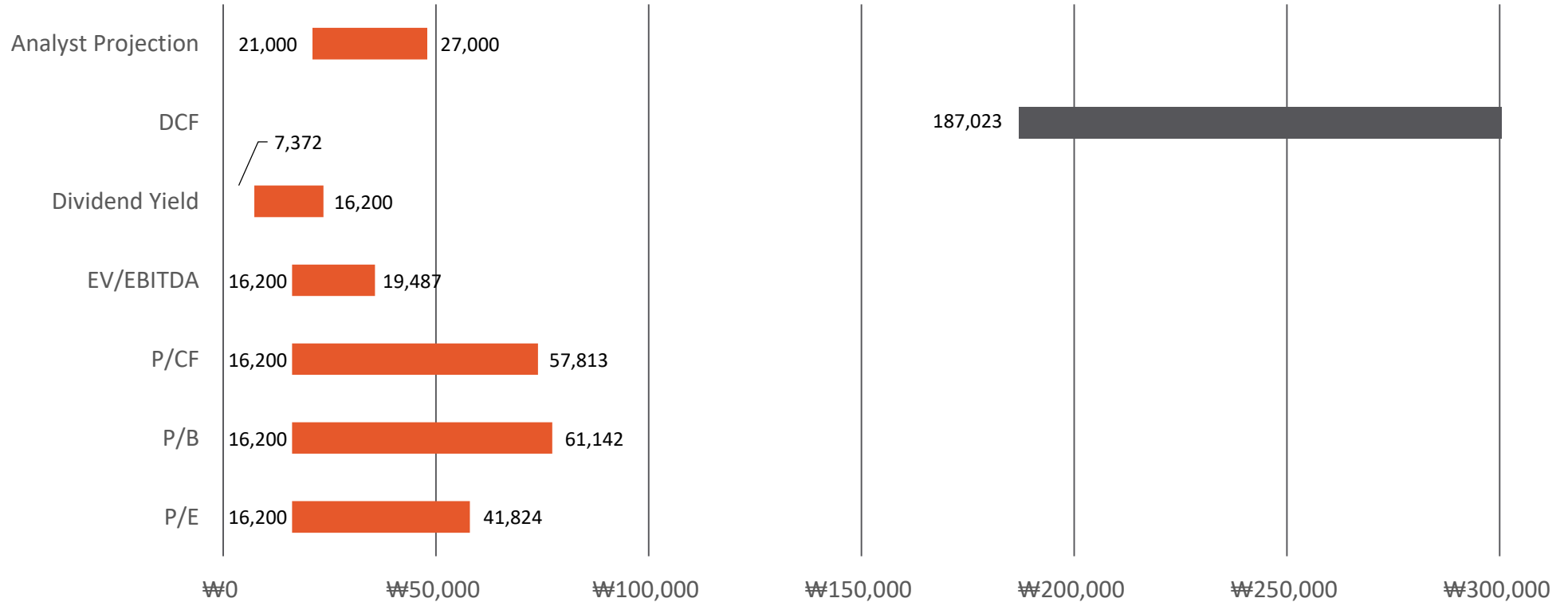
- Investment in PP&E will most likely chance if order of this size is made, but impossible to understand cost of new plants
- Kospi 200 index has average of negative return in 2018, serving as a poor proxy for market return
- The cost of the material will be different from traditional HR Coil used in this valuation

Shares Outstanding	35,862,119 Shares
Current Price	KRW 16,200
Total Equity	KRW 580,966,327,800
Total Debt	KRW 925,100,000,000
Total Capital	KRW 1,506,066,327,800

Football Field Analysis

Football Field Analysis was used to determine the target price for SeAH while incorporating expectations from DCF.

As multiples and analysts' projections were all within the same valuation range, mean of each valuation method was produced from the range and given even weight with exception to DCF.



Peer Companies	PER	PBR	PCR	EV/EBITDA	Div Yield
SeAH Besteel	4.59	0.31	2.62	4.14	5.56%
Posco	8.56	0.5	4.26	4.48	2.92%
Poongsan	4.82	0.56	5.28	4.95	3.09%
Korea Zinc	11.85	1.17	9.35	4.98	2.53%
Max	11.85	1.17	9.35	4.98	5.56%
Min	4.59	0.31	2.62	4.14	2.53%

Target Price and Conclusion

Although DCF was insufficient in determining the value of SeAH Besteel during Korea-Russia pipeline construction, it was able to provide measures to understand its upside potential.

Comparables Analysis

Ratios	Lower Bound	Upper Bound	Mean	weight
P/E	16,200	41,824	29,012	0.165
P/B	16,200	61,142	38,671	0.165
P/CF	16,200	57,813	37,006	0.165
EV/EBITDA	16,200	19,487	17,843	0.165
Dividend Yield	7,372	16,200	11,786	0.165
DCF	187,023	648,055	417,539	0.01
Analyst Projection	21,000	27,000	24,000	0.165

Conclusion

Target Price : KRW 30,298

Market Price : KRW 16,200

Recommendation : **BUY**

Upside Potential : 87.02%

- Despite the recent depreciation in revenue, SeAH Besteel has upside potential due to improving North-South relations.
- Regardless of this new revenue, SeAH Besteel is balancing its sales portfolio by putting less emphasis on automobile sector, which was its primary source of revenue.
- SeAH Besteel will be able to recover its previous level of KRW 30,000 given both analysis.