

Hite Brewery (000140 KS)

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Transition should help diversify risks, but not affect corporate value in the short term

BUY

CP: W119,000

TP: W173,000

MV: W2,522bn

Introduction of the holding company system should help boost Jinro's IPO price

Hite Brewery recently disclosed that on Jul 1, 2008 it will de-merge into the tentatively named, "Hite Holdings" (the surviving entity and holding company), and "Hite Brewery" (the new entity, an operating subsidiary). This move is aimed at diversifying the company's risks regarding the IPO of its subsidiary Jinro, in which Hite Brewery holds a 41.85% stake. It may also produce some side effects including:

1. Currently, the risks regarding Jinro's IPO affect the entire Hite-Jinro Group, but since under a holding company structure only the holding company itself assumes these risks, and the newly created Hite Brewery would be freed from this burden. The elimination of these risks would reduce the market's fears and remove the current discount that weighs on Hite Brewery's shares.
2. If the new Hite Brewery is fairly valued, it will likely help raise Jinro's IPO price, since the new company would be one of the yardsticks used to value Jinro. The IPO is scheduled for early October 2008.
3. The holding company system will enable the Hite-Jinro Group to make aggressive investments in both its global businesses, and business diversification. The group established a subsidiary in Beijing last December and is expected to strongly push for global businesses focusing on its soju products (soju is an alcoholic beverage made mainly from rice, clear in color and with alcohol content of about 20%). Hite Holdings is likely to make investments in the group's global businesses. As such, both the new Hite Brewery and Jinro, which would be subsidiaries of the holding company, would thus no longer be exposed to investment risks.

The holding company system should not affect the Hite-Jinro Group's corporate value, but should help boost the share price of the newly created Hite Brewery

The de-merger ratio has been set 0.558 Hite Holdings : 0.442 Hite Brewery. Both the holding company and the operating subsidiary will be listed on the stock market on Jul 30, 2008. As a result of the de-merger, the new Hite Brewery will likely be re-rated in the market, since it will be able to focus more closely on its beer business where it has a competitive edge. However, Hite Holdings on the other hand will continue being affected by risks from the IPO. Therefore, its corporate value is not likely to rise significantly. All in all, we present the NEUTRAL rating for the planned holding company and the BUY rating for the new Hite Brewery, when they are created.

Holding company is unlikely to gain in value, but the new structure may help Jinro's IPO; maintain BUY rating and the TP of W173,000

We reiterate the BUY rating and the six-month target price of W173,000 for Hite Brewery. The introduction of a holding company system should help diversify the Hite-Jinro Group's risks, but is unlikely to boost its overall corporate value. However, it should have some positive effects on Jinro's IPO because if the new Hite Brewery receives a fair value, this will also help raise the IPO price.

Forecasts and valuations

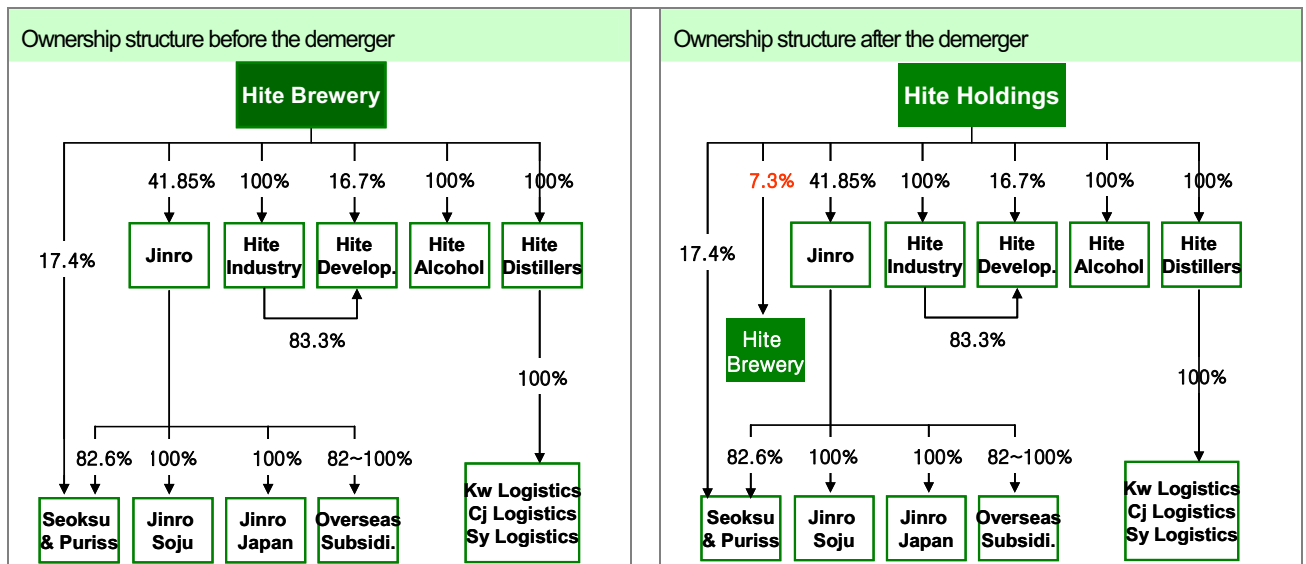
	Sales (Wbn)	OP (Wbn)	Pretax profit (Wbn)	NP (Wbn)	EPS (W)	Chg (%)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Net D/E (%)
2006A	893	202	141	93	4,791	43.8	24.9	2.1	11.5	8.6	65.0
2007A	963	231	195	137	6,406	33.7	22.2	2.3	13.2	10.7	66.8
2008F	1,014	250	220	157	7,369	15.0	16.1	1.7	10.7	11.3	56.9
2009F	1,053	267	241	174	8,141	10.5	14.6	1.6	10.0	11.4	47.7
2010F	1,094	287	266	191	8,933	9.7	13.3	1.4	9.3	11.3	39.2

Source: Hite Brewery, Daishin Securities Research Center

Demerger timetable

Date	Events
Apr 16	BoD passed a demerger resolution; the company submitted the demerger report and made a public disclosure
Apr 17	The company announced it is closing the shareholder registry book
May 2	List of shareholders is finalized for a shareholders' meeting
May 3~9	Shareholder registry book is closed
May 29	Shareholders' meeting, demerger plan is approved
May 30	The demand shareholders submit their existing stock certificates
May 31~Jun 30	Existing stock certificates are submitted
Jun 30~previous day of relisting	Stock trading gets suspended
Jul 1	Record date for the de-merger as well as the issuance of new equities for demerged entities
Jul 2	Date for inaugural meetings
Jul 4	Demerger registration
Jul 30	Holding company gets listed; operating subsidiary gets relisted

Source: Hite Brewery, Daishin Securities Research Center



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Balance sheets before and after the demerger

	Before demerger	After demerger	
		Hite Holdings	Hite Brewery
I. Current assets	488,038	69,558	418,480
(1) Quick assets	416,613	69,558	347,055
(2) Inventory assets	71,425		71,425
II. Noncurrent assets	2,278,759	1,005,010	1,314,810
(1) Investment assets	961,278	990,252	12,087
(2) Tangible assets	1,246,210	14,214	1,231,996
(3) Intangible assets	544	544	
(4) Others	70,727		70,727
Total asstes	2,766,797	1,074,568	1,733,290
I. Current liabilities	1,093,863	204,169	889,694
II. Long-term liabilities	350,500	91,403	259,097
Total liabilities	1,444,363	295,572	1,148,791
I. Paid-in capital	110,205	61,494	48,711
II. Paid-in capital in excess of par	332,940	185,781	535,816
III. Other capital surplus	303,920	301,811	
IV. Capital adjustment	-100,584	-446,071	
V. Accumulated other comprehensive income	13,159	13,187	-28
VI. Retained earnings	662,794	662,794	
Total shareholders' equity	1,322,434	778,996	584,499
Total liabilities and shareholders' equity	2,766,797	1,074,568	1,733,290

Source: Hite Brewery, Daishin Securities Research Center

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[Hite Brewery (000140 KS)] Rating and Target price

Date	08.04.17	08.03.26	08.02.01	08.02.01	08.01.10	07.11.19	07.11.16	07.11.02	07.09.14	07.08.17	07.06.27
Rating	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy
TP	173,000	173,000	173,000	173,000	173,000	155,000	155,000	155,000	155,000	155,000	155,000
Date	07.05.11	07.05.03	07.02.02	06.05.15	06.05.04						
Rating	Buy	Buy	Buy	Buy	Buy						
TP	155,000	155,000	148,000	165,000	185,000						

[Hite Brewery (000140 KS)] Target price and Actual price

