

Company Update



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■ AT A GLANCE

SELL HOLD BUY

Target price	KRW7,500 (15%)		
Current price	KRW6,550		
Bloomberg code	047040 KS		
Market cap	KRW2.7t/USD2.5b		
Shares (float)	415,622,638 (46.4%)		
52-week high/low	KRW10,200/KRW5,930		
Average daily trading value (60-day)	KRW 6.95b/USD 6.50m		
One-year performance	1M	6M	12M
Daewoo E&C (%)	-14.7	-23.5	-23.8
Vs Kospi (%pts)	-12.0	-23.6	-20.5

■ KEY CHANGES

(KRW)	New	Old	Diff (%)
Recommendation	HOLD	HOLD	-
Target price	7,500	8,200	(8.5)
2014E EPS	630	692	(8.9)
2015E EPS	770	772	(0.2)
2016E EPS	886	888	(0.2)

■ SUMMARY OF 3Q RESULTS

(KRWb)	3Q14	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	2,584.4	28.8	2.9	2.5	6.4
Operating profit	97.4	(9.4)	(5.5)	2.7	(4.2)
Pre-tax profit	5.7	(91.5)	(86.1)	(91.5)	(92.1)
Net profit	2.3	(95.3)	(92.7)	(95.2)	(95.7)
Margins (%)					
Operating profit	3.8				
Pre-tax profit	0.2				
Net profit	0.1				

Note: Parent based

Source: Company data, Samsung Securities estimates

Daewoo E&C (047040 KS)

Overseas overruns hit bottom line

WHAT'S THE STORY?

Event: Daewoo E&C's 3Q operating and net profits missed consensus forecasts by a respective 4.2% and 95.7%, as the company booked KRW85b in liquidated damages for delays in building the Sur power plant in Oman. The firm reported on Oct 31 after the market close.

Impact: The liquidated damages drove down Daewoo's overseas gross margin to -6% in 3Q (from -1.4% in 2Q), but the domestic housing business saw its gross margin jump to 16.9% (from 13.8% in 1Q and 10.4% in 2Q) after recovering KRW39.5b of bad debt reserves.

Action: Given the results, we lower our 2014 net profit forecast by 8.9% and our target price from KRW8,200 to KRW7,500. We maintain HOLD.

THE QUICK VIEW

Profits miss: Daewoo E&C on Oct 31 reported a 3Q operating profit of KRW97.4b, missing the consensus by 4.2%, and a net profit of KRW2.3b that missed by 95.7% after reflecting KRW85b in liquidated damages as non-operating expenses for delays in building the Sur power plant in Oman. Orders won over 1Q-3Q totaled KRW8.1t (including KRW3.8b from overseas). Assuming orders normalize in 4Q from abnormally low levels in 3Q, we believe they are on track to meet our full-year forecast of KRW12.2t, but will fall short of guidance of KRW15t.

Costs rise on damages for Oman project delays: In 2Q, Daewoo E&C booked KRW64.5b in liquidated damages for delays on the Oman Sur and Morocco JL power plant projects. In 3Q, it completed the latter project but booked more damages on the Oman one, resulting in its overseas gross margin falling from -1.4% in 2Q to -6%. Overseas sales, however, jumped 15.4% q-q, despite geopolitical risk.

Domestic housing gross margin improves: Daewoo E&C's unsold housing inventory dropped from 3,110 units at end-2Q to 2,318 at end-3Q. Of 13,000 units offered for presale over 1Q-3Q (vs full-year guidance of 19,500 units), 85% had been sold by end-3Q (vs 55% at end-2Q). Gross margin in the domestic housing business jumped to 16.9% in 3Q from 13.8% in 1Q and 10.4% in 2Q, while SG&A costs shrank as the company recovered KRW39.5b of bad debt reserves after promotional expenses and discounts for unsold units came in less than expected.

Cutting target to KRW7,500 and maintaining HOLD: Daewoo E&C expects to write back more than KRW50b from the KRW85b it booked as liquidated damages for the Oman Sur project in 3Q. Still, to reflect the 3Q results, we revise down our 2014 net profit forecast by 8.9% and our 12-month target price from KRW8,200 to KRW 7,500 (based on 10x forward P/E). We maintain HOLD.

■ VALUATION SUMMARY

	2013	2014E	2015E
Multiples (x)			
P/E	(4.7)	10.4	8.5
P/B	1.4	1.0	0.9
EV/EBITDA	(8.5)	7.7	6.2
Div yield (%)	0.0	0.0	0.0
EPS growth (%)	Turned neg	Turned pos	22.2
ROE (%)	(23.7)	9.4	10.4
Per share data (KRW)			
EPS	(1,729)	630	770
BVPS	6,050	6,697	7,484
DPS	0	0	0

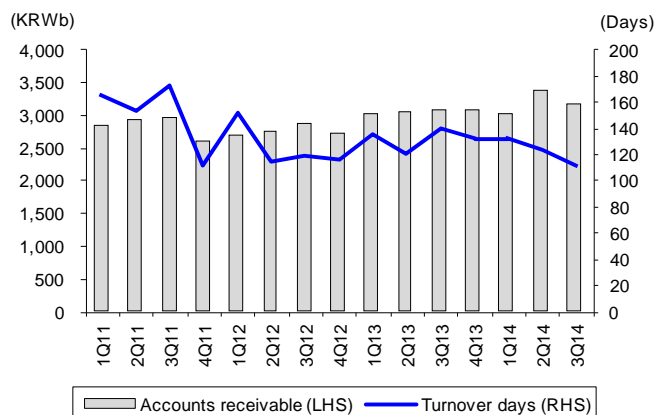
3Q review breakdown

(KRWb)	3Q13	2Q14	3Q14	Chg (%)	
				y-y	q-q
Sales	2,007	2,511	2,584	28.8	2.9
Housing	481	735	789	63.9	7.4
Civil engineering	281	329	291	3.8	(11.4)
Architecture	428	635	585	36.5	(7.9)
Plant	98	72	66	(32.5)	(8.7)
Overseas	714	736	849	19.0	15.4
Other	5	4	4	(10.2)	7.3
Gross profit	209	158	161	(23.2)	1.8
Gross margin (%)	10.4	6.3	6.2		
Housing	12.6	10.4	16.9		
Civil engineering	4.8	8.8	7.0		
Architecture	11.1	8.4	8.7		
Plant	11.3	13.7	11.2		
Overseas	10.9	(1.4)	(5.9)		
Operating profit	108	103	97	(9.5)	(5.4)
Operating margin (%)	5.4	4.1	3.8		
Non-operating profit	(41)	(62)	(92)	Remained neg	Remained neg
Net profit	49	32	2	(95.3)	(92.7)
Total assets	9,486	10,306	10,066	6.1	(2.3)
Total equity	3,479	2,663	2,677	(23.1)	0.5
Net debt	2,268	2,343	2,283	0.6	(2.5)

Note: Parent based

Source: Company data, Samsung Securities

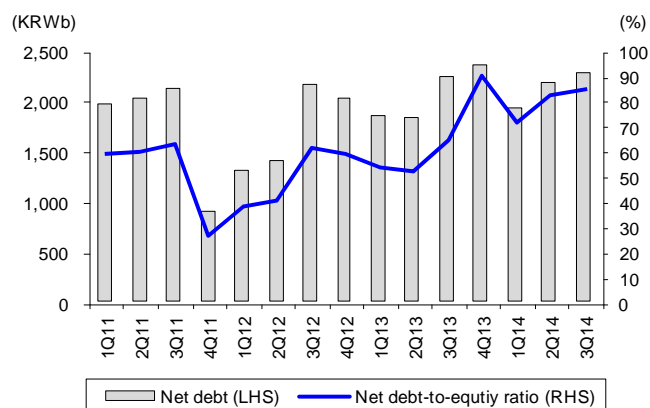
Accounts receivable



Note: Parent based

Source: Company data, Samsung Securities

Net debt



Note: Parent based

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2012	2013	2014E	2015E	2016E
Sales	8,223	8,782	9,276	9,681	10,086
COGS	7,404	8,442	8,437	8,801	9,161
Gross profit	820	340	839	880	925
Gross margin (%)	10.0	3.9	9.0	9.1	9.2
SG&A expenses	474	585	380	387	403
Operating profit	346	(245)	458	493	522
Operating margin (%)	4.2	(2.8)	4.9	5.1	5.2
Net Interest income	(94)	(83)	(114)	(84)	(55)
Net equity-method gains	0	0	0	0	0
Other	(28)	(496)	17	32	12
Pre-tax profit	228	(840)	362	442	480
Taxes	55	(122)	99	121	111
Effective tax rate (%)	24.1	14.5	27.5	27.5	23.2
Net profit	173	(718)	262	320	368
Net margin (%)	2.1	(8.2)	2.8	3.3	3.7
Net profit attributable to parent company	177	(718)	262	320	368
Net profit attributable to non-controlling shareholders	(4)	(0)	0	0	0
Operating net profit*	171	(719)	262	320	368
Operating net margin (%)	2.1	(8.2)	2.8	3.3	3.7
EBIT	322	(753)	476	525	534
EBIT margin (%)	3.9	(8.6)	5.1	5.4	5.3
EBITDA	373	(694)	538	584	587
EBITDA margin (%)	4.5	(7.9)	5.8	6.0	5.8
EPS (parent, KRW)	426	(1,727)	630	770	886
EPS (consolidated, KRW)	416	(1,728)	631	770	886
Adjusted EPS (KRW)**	411	(1,729)	630	770	886
DPS (common, KRW)	0	0	0	0	0
DPS (preferred, KRW)	0	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0

Cash flow statement

Year-end Dec 31 (KRWb)	2012	2013	2014E	2015E	2016E
Cash flow from operations	(1,143)	(505)	282	210	313
Net profit	173	(718)	262	320	368
Depreciation & amortization	51	59	62	59	53
Net equity-method losses (gains)	0	0	0	0	0
Gross cash flow	524	6	366	375	423
(-) Change in working capital	(1,558)	(366)	30	(82)	(150)
Other	(57)	(68)	(0)	0	0
Cash flow from investments	67	274	389	(72)	(74)
Capex	(56)	(64)	(37)	(37)	0
Free cash flow	(1,198)	(570)	245	173	313
Change in investment assets	151	140	154	66	29
Other	(29)	198	272	(101)	(103)
Cash flow from financing	752	252	(144)	(109)	(209)
Change in debt	0	0	1	0	0
Change in equity	0	0	0	0	0
Dividends	0	0	0	0	0
Other	752	252	(145)	(109)	(209)
Change in cash	(325)	21	528	29	30
Cash at beginning of year	714	388	410	938	967
Cash at end of year	388	410	938	967	997

Note: Consolidated K-IFRS-based figures

Revised K-IFRS-based figures since 2011

* Excluding one-off items

** Fully diluted, excluding one-off items

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2012	2013	2014E	2015E	2016E
Current assets	6,717	6,949	7,147	7,343	7,609
Cash & equivalents	388	410	938	967	997
Account receivables	2,672	3,088	3,092	3,227	3,362
Inventories	1,427	1,483	1,496	1,489	1,552
Other current assets	2,230	1,969	1,621	1,660	1,697
Fixed assets	3,143	3,173	3,070	3,045	3,028
Investment assets	1,230	932	778	712	683
Equity in affiliated companies	96	40	40	40	40
Tangible assets	698	698	682	669	625
Intangible assets	114	110	107	103	100
Other long-term assets	1,101	1,433	1,503	1,560	1,620
Total assets	9,859	10,122	10,217	10,388	10,636
Current liabilities	4,157	4,757	5,039	5,352	5,693
Accounts payable	468	486	504	526	548
Short-term debt	585	1,085	1,085	1,085	1,085
Other current liabilities	3,104	3,185	3,450	3,741	4,060
Long-term liabilities	2,291	2,712	2,262	1,801	1,340
Bond & long-term debt	1,435	1,412	899	385	(129)
Other long-term liabilities	856	1,300	1,363	1,416	1,468
Total liabilities	6,448	7,469	7,301	7,152	7,033
Owners of parent equity	3,353	2,596	2,858	3,178	3,546
Capital stock	2,078	2,078	2,078	2,078	2,078
Capital surplus	548	548	548	548	548
Retained earnings	885	182	444	764	1,132
Other	(158)	(212)	(212)	(212)	(212)
Non-controlling interests' equity	58	57	57	58	58
Total equity	3,411	2,654	2,916	3,236	3,604
Net debt	2,036	2,476	1,428	879	330
Book value per share (KRW)	7,885	6,050	6,697	7,484	8,388

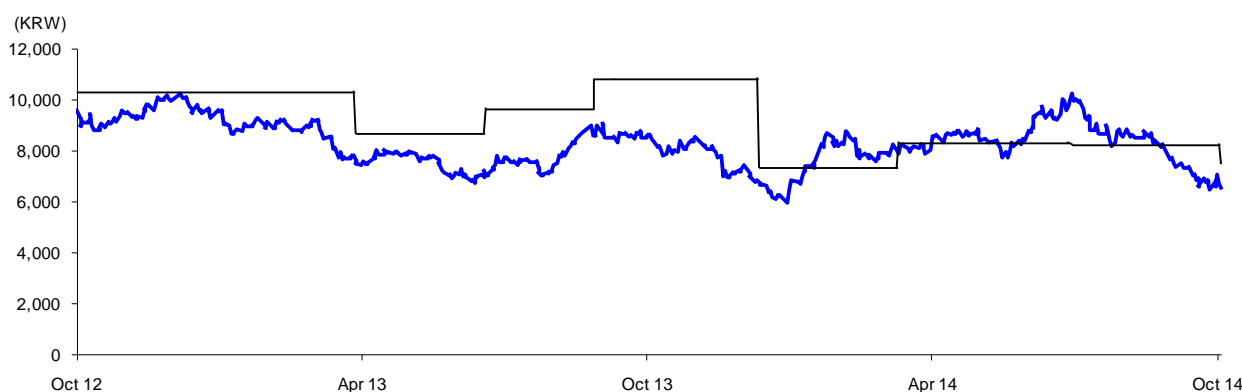
Financial ratios

Year-end Dec 31	2012	2013	2014E	2015E	2016E
Growth (%)					
Sales	17.1	6.8	5.6	4.4	4.2
Operating profit	16.2	Turned neg	Turned pos	7.6	5.9
Pre-tax profit	8.5	Turned neg	Turned pos	22.2	8.6
Net profit	(0.3)	Turned neg	Turned pos	22.2	15.1
Operating net profit*	(4.5)	Turned neg	Turned pos	22.2	15.1
EBITDA	(7.4)	Turned neg	Turned pos	8.7	0.5
Adjusted EPS**	(4.5)	Turned neg	Turned pos	22.2	15.1
Ratios (%)					
ROE	5.1	(23.7)	9.4	10.4	10.8
ROA	1.8	(7.2)	2.6	3.1	3.5
ROIC	4.8	(4.1)	7.7	8.7	10.2
Net debt to equity	59.7	93.3	49.0	27.2	9.1
Interest coverage (x)	2.4	(6.3)	3.2	4.3	5.7
Receivables turnover days	116.8	119.7	121.6	119.1	119.2
Payables turnover days	25.6	19.8	19.5	19.4	19.4
Inventory turnover days	54.2	60.5	58.6	56.3	55.0
Valuations (x)					
P/E**	23.8	(4.7)	10.4	8.5	7.4
P/B	1.2	1.4	1.0	0.9	0.8
EV/EBITDA	16.3	(8.5)	7.7	6.2	5.2
EV/EBIT	18.9	(7.8)	8.7	6.9	5.7
Dividend yield (common, %)	0.0	0.0	0.0	0.0	0.0

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■ Target price changes in past two years



■ Rating changes in past two years

Date	2012/11/22	2013/4/25	7/18	9/25	2014/1/8	4/8	7/26	10/31
Recommendation	HOLD	HOLD	BUY	BUY	HOLD	HOLD	HOLD	HOLD
Target price (KRW)	10,300	8,700	9,600	10,800	7,300	8,300	8,200	7,500

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BUY★★★	Expected to increase in value by 30% or more within 12 months and is highly attractive within sector
BUY	Expected to increase in value by 10% or more within 12 months
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
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SELL★★★	Expected to decrease in value by 30% or more within 12 months

Industry

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