

Nov 3, 2014
Company Comment

Daewoo E&C (047040.KS)

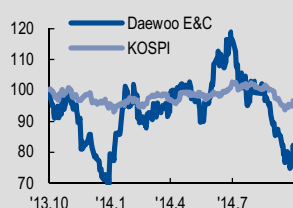
Hold (maintain)

TP **W8,400 (maintain)**
CP ('14/10/31) **W6,550**

Sector Construction

Kospi 1,964.43
Kosdaq 558.70
Market cap (common) US\$2,550.16mn
Outstanding shrs (common) 415.6mn shrs
52W high ('14/07/28) W10,200
low ('14/01/27) W5,930
Average trading value (60D) US\$4.59mn
Dividend yield (2013) 0.00%
Foreign ownership 46.4%

Price trend



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Earnings to improve going forward

Weighed upon by additional costs related to the Oman SUR power plant, Daewoo E&C's 3Q14 pre-tax income missed consensus. Supported by the recovery in Korea's housing market, earnings at the domestic housing division's earning should improve rapidly going forward. However, uncertainties remain in play (including loss-making projects and regulatory issues).

3Q14 results favorable at domestic housing arm, but poor overseas

- Daewoo E&C reported 3Q14 sales of W2,584.4bn (up 29% y-y; exceeded both our estimate and consensus), operating profit of W97.4bn (down 9% y-y), and pre-tax income W5.7bn (down 91% y-y; fell well short of consensus).
- The COGS-to-sales ratio at the domestic housing arm enhanced to 83.1% (vs 89.6% in 2Q14) on a greater sales portion of in-house business (30%). But, weighed upon by additional costs related to the Oman SUR power plant (which has been considered as a loss-making project since 2Q14), Daewoo E&C's COGS-to-sales ratio came in at a sluggish 105.9% (vs 101.4% in 2Q14). Moreover, the firm's pre-tax income was bearish due to the reflection of additional costs, including the paying out of W85.0bn worth of compensation related to a delay in Oman SUR power plant project. But, as it was not at fault for the delay, Daewoo E&C believes that it will recover more than half of this compensation in 4Q14.
- As of end-3Q14, Daewoo E&C's 2014 new orders amounted to W8.1tn (including overseas new orders of W3.8tn), accounting for just 54% of its annual guidance. However, thanks to projects in both Africa and at its domestic housing, we predict that the constructor's 2014 new orders will reach over W12tn.

Earnings to improve going forward

- In both 2014 and 2015, we view Daewoo E&C's housing division as easily being capable of achieving annual sales of W3tn and a gross margin of over 13%, backed by: 1) expectations that the firm will be a prime beneficiary of the domestic housing market upturn thanks to its highly leveraged position in the housing business (of note, Daewoo E&C has supplied over 15,000 units since 2011); and 2) the company's expanding sales portion of in-house business.
- Also, earnings at Daewoo E&C's overseas housing division should normalize going forward thanks to the start of two new projects (SAFI project in Morocco and Jazan project in Saudi Arabia) this year. Of note, Daewoo E&C's overall backlog order currently stands at around W12.2tn (W2.2tn of which is represented by halted projects in Libya and Iraq). Meanwhile, we point out that uncertainties remain in play related to both low-margin projects and construction delays.
- Weighing all of the above-listed factors, we adhere to our Hold rating and target price of W8,400 for now. Currently trading at a 2015F P/E of 9.9x and P/B of 0.9x, we view Daewoo E&C's shares as possessing valuation merit thanks to: 1) the fading of some worries (including loss-making projects and regulatory issues) and 2) the earnings upswing at its domestic domain.

3Q14 results

(Units: Wbn, %)

	3Q13	4Q13	1Q14	2Q14	3Q14P					4Q14E
					Actual	y-y	q-q	Estimates	Consen	
Sales	2,007	2,069	2,073	2,511	2,584	28.8	2.9	2,388	2,430	2,504
Operating profit	108	-578	119	103	97	-9.4	-5.5	106	102	104
Operating margin	5.4	-27.9	5.8	4.1	3.8			4.4	4.2	4.2
Pre-tax profit	66	-1,052	89	41	6	-91.6	-86.2	86	72	57
Net profit	49	-874	64	32	2	-95.3	-92.8	65	66	43

Note: K-IFRS non-consolidated basis, Source: Daewoo E&C, FnGuide, Woori I&S Research Center estimates

Earnings forecasts (IFRS consolidated)

(Units: Wbn, won, x, %)

		2013	2014E	2015F	2016F
Sales	- Revised	8,782.2	9,859.3	10,217.1	10,984.7
	- Previous		9,577.6	10,009.3	10,803.1
	- Change		2.9	2.1	1.7
Operating profit	- Revised	-244.7	457.5	500.4	521.7
	- Previous		458.7	495.2	539.0
	- Change		-0.3	1.1	-3.2
Operating margin (revised)	- Revised	-2.8	4.6	4.9	4.7
EBITDA		-185.7	518.1	562.8	586.2
Net profit (excl minority interests)		-717.8	142.8	273.9	292.7
EPS	- Revised	-1,727.1	343.5	659.1	704.3
	- Previous		511.3	663.3	749.5
	- Change		-32.8	-0.6	-6.0
P/E		N/A	19.1	9.9	9.3
P/B		1.2	1.0	0.9	0.8
EV/EBITDA		N/A	10.3	9.2	8.8
ROE		-24.1	5.4	9.6	9.4

Note: EPS, P/E, P/B, and ROE based on net profit (excl minority interests)

Source: Woori I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2013/12A	2014/12E	2015/12F	2016/12F
Sales	8,782	9,859	10,217	10,985
Growth (%)	6.8	12.3	3.6	7.5
COGS	8,442	9,059	9,280	9,996
Gross Profit	340	800	937	989
Gross margin (%)	3.9	8.1	9.2	9.0
SG&A	585	343	437	467
Operating Income	-245	457	500	522
Growth (%)	적전	흑전	9.4	4.3
Operating margin (%)	-2.8	4.6	4.9	4.7
EBITDA	-186	518	563	586
Non-Operating Profit	-595	-253	-139	-136
Financial Income(Costs)	-86	-95	-91	-88
Other Non-Operating Profit	-518	-171	-60	-60
Gains(Losses) in Associates, Subsidiaries and JVs	9	12	12	12
Pre-tax Profit from Cont. Op.	-840	204	361	386
Income Taxes	-122	61	87	93
Profit from Continuing Op.	-718	143	274	293
Net Profit	-718	143	274	293
Growth (%)	적전	흑전	91.0	6.9
Net margin (%)	-8.2	1.5	2.7	2.7
Net Profit of Parent	-718	143	274	293
Net Profit to Non-Controlling	0	1	0	0
Other Comprehensive Income	-40	0	0	0
Total Comprehensive Income	-758	143	274	293

VALUATION INDEX

	2013/12A	2014/12E	2015/12F	2016/12F
Price/Earnings (x)	N/A	19.1	9.9	9.3
P/E (High, x)	N/A	30.1	15.7	14.7
P/E (Low, x)	N/A	17.2	9.0	8.4
Price/ Book Value (x)	1.2	1.0	0.9	0.8
P/B (High, x)	1.7	1.6	1.4	1.3
P/B (Low, x)	1.1	0.9	0.8	0.8
Price/ Gross Cash Flow (x)	484.3	7.6	5.3	5.1
Price/ Sales (x)	0.3	0.3	0.3	0.2
P/E / EPS growth (x)	N/A	0.6	1.1	0.7
P/E / EBITPS growth (x)	N/A	2.4	1.5	1.0
P/E / EBITDAPS growth (x)	N/A	2.6	1.6	1.1
EV/ EBITDA (x)	N/A	10.3	9.2	8.8
EV/ EBIT (x)	N/A	11.7	10.3	9.9
Enterprise Value (Wbn)	5,721	5,358	5,175	5,158
EPS CAGR (3-Yr) (%)	-174.2	32.6	9.3	12.5
EBITPS CAGR (3-Yr) (%)	-228.7	7.8	6.4	9.3
EBITDAPS CAGR (3-Yr) (%)	-246.7	7.3	6.1	8.7
EBITPS (won)	-589	1,101	1,204	1,255
EBITDAPS (won)	-447	1,246	1,354	1,410
Fully diluted EPS (won)	-1,727	344	659	704
BVPS (won)	6,247	6,590	7,200	7,805
CFPS (won)	15	865	1,239	1,295
Sales PS (won)	21,130	23,722	24,583	26,430
DPS (won)	0	0	50	100

CASH FLOW STATEMENT

(Wbn)	2013/12A	2014/12E	2015/12F	2016/12F
Operating Cash Flow	-505	270	329	259
Net Profit	-718	143	274	293
Depreciation & Amortization	59	61	62	64
+ Loss(Gains) from Subs	3	0	0	0
+ FC translation loss(profit)	9	0	0	0
+ Losses(Gains) on Disposal of Assets	4	0	0	0
Gross Cash Flow	6	359	515	538
- Incr. (Decr.) in WC	-366	66	-8	-98
Investing Cash Flow	274	-253	-147	-226
+ Decr. In Tangible Assets	3	0	0	0
- Incr. In Tangible Assets (capex)	-67	-47	-57	-67
+ Disp.(Acq.) of Inv. Assets	291	-25	-26	-27
Free Cash Flow	-572	223	272	192
Net Cash Flow	-232	17	182	34
Financing Cash Flow	252	5	2	-17
Equity Financing	0	0	0	0
Debt Financing	252	5	2	-17
Incr.(Decr.) in Cash	21	22	184	17
Ending Cash and Cash Equivalents	410	432	615	632
Net Debt (Cash)	2,600	2,578	2,394	2,378

RIM & EVA

	2013/12A	2014/12E	2015/12F	2016/12F
RIM				
Spread (FROE-COE) (%)	-33.1	-4.6	0.1	-0.1
Residual Income	-985.4	-124.0	-12.6	-19.1
12M RIM Target Price (won)	7,731			
EVA				
Invested Capital	4,494.1	4,645.0	4,709.4	4,949.9
NOPAT	-402.0	233.1	350.0	332.6
ROIC (%)	-9.0	5.1	7.5	6.9
ROIC - WACC (%)	-14.0	0.3	2.6	1.9
EVA	-627.5	16.3	122.2	96.0
DCF				
EBIT	-244.7	457.5	500.4	521.7
+ Depreciation/Amortization	59	61	62	64
- Capex	-67.0	-46.8	-56.8	-67.4
- Incr. (Decr.) in Working Capital	104.0	-70.2	-19.5	-165.4
Free Cash Flow for Firm	-321.1	405.4	404.4	557.9
WACC				
Cost of Debt (Tax Adj.)	3.6	2.9	3.2	3.2
Cost of Equity (COE)	9.0	10.0	9.5	9.5
WACC (%)	5.0	4.8	4.9	4.9

STATEMENT OF FINANCIAL POSITION

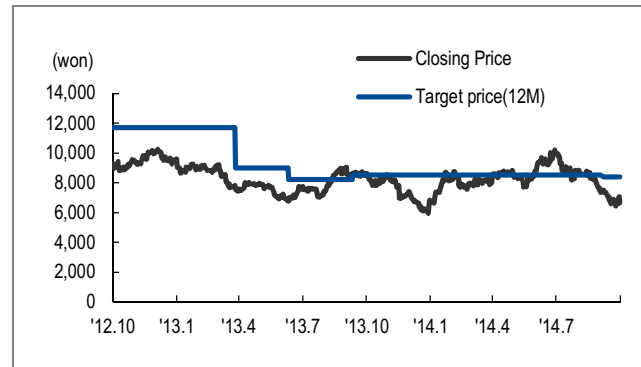
(Wbn)	2013/12A	2014/12E	2015/12F	2016/12F
Cash and Cash Equivalents	410	432	615	632
Accounts Receivables	3,717	4,048	4,069	4,243
Total Current Assets	6,949	7,448	7,689	7,972
Tangible Assets	698	693	694	704
Investment Assets	932	957	983	1,010
Non-Current Assets	3,173	3,366	3,450	3,611
Assets	10,122	10,814	11,139	11,583
Short-Term Debt	1,665	1,665	1,665	1,665
Account Payables	486	530	533	555
Current Liabilities	4,757	5,164	5,202	5,302
Long-Term Debt	1,456	1,461	1,463	1,466
Long-Term Allowance	702	788	817	878
Non-Current Liabilities	2,712	2,853	2,887	2,979
Liabilities	7,469	8,017	8,089	8,281
Capital Stock	2,078	2,078	2,078	2,078
Capital Surplus	548	548	548	548
Retained Earnings	182	325	578	830
Non-Controlling Interests Equity	57	58	58	58
Shareholders' Equity	2,654	2,797	3,050	3,302

PROFITABILITY & STABILITY

	2013/12A	2014/12E	2015/12F	2016/12F
ROE (%)	-24.1	5.4	9.6	9.4
ROA (%)	-7.2	1.4	2.5	2.6
ROIC (%)	-9.0	5.1	7.5	6.9
EBITDA/equity (%)	-7.0	18.5	18.5	17.8
EBITDA/assets (%)	-1.8	4.8	5.1	5.1
Dividend Yield (%)	0.0	0.0	0.8	1.5
Payout Ratio (%)	0.0	0.0	7.5	14.0
Total Cash Dividend (Wbn)	0	0	21	41
Cash DPS (won)	0	0	50	100
Net debt(cash)/ equity (%)	98.0	92.2	78.5	72.0
Debt/ equity (%)	281.5	286.6	265.2	250.8
Net interest exp/ sales (%)	1.4	1.3	1.2	1.1
Interest coverage (x)	-2.0	3.7	4.0	4.2
Current Ratio (%)	146.1	144.2	147.8	150.3
Quick Ratio (%)	114.9	114.7	117.7	119.9
Total shares (mn)	416	416	416	416
Par value (won)	5,000	5,000	5,000	5,000
Share price (won)	7,370	6,550	6,550	6,550
Market Cap (Wbn)	3,063	2,722	2,722	2,722

Rating and target price update

Company	Code	Date	Rating	Target price
Daewoo E&C	047040.KS	2014.10.06	Hold	W8,400(12M)
		2013.12.27	Covering analyst changed	



Woori Investment & Securities stock ratings

1. Period: Uniform 12-month
2. Rating System: Based on a stock's absolute return from the date of publication
 - Strong Buy: high conviction Buy rated stocks
 - Buy: greater than +15%
 - Hold: 0% and +15%
 - Reduce: less than 0%

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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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