



November 3, 2014

Daewoo E&C (047040)

Equity Research

Update

Delay in the final completion of Oman Sur IPP project

3Q14 earnings missed consensus on rising losses from Oman Sur IPP project

Daewoo E&C reported preliminary 3Q14 sales of W2.6tn (+28.8% YoY), OP of W97.4bn (-9.4% YoY) and PTP of W5.7bn (-91.5% YoY) on a standalone basis. Sales were good, beating market consensus by about 10% on growth for domestic housing and overseas businesses. OP met consensus despite a continued cost increase triggered by a delay in completing the Oman Sur IPP project (cost increase of W40.5bn in 2Q14), as provisions of W58.5bn for SG&A costs were written back. PTP posted a large YoY decline, as liquidated damages of about W85.0bn related to the Sur project were booked as other operating expenses.

Persistent overseas risk, escalating performance risk

3Q14 results of domestic construction companies illustrate widening risks associated with the Middle East projects. The risks so far concentrated on companies incurring liquidated damages because of a delay in terms of mechanical completion. Now, liquidated damages are also occurring in relation to the performance of project completion conditions. Meeting the conditions sometimes require the input of additional resources, as is the case with the Sur project. We are concerned that such a risk in commissioning will likely spread to overall Korean companies, given power plant and refining facility projects to be completed in 2014-2015.

As for the Sur IPP project, Daewoo completed building two 800MW lines for the plant with total capacity of 2,000MW and is testing the remaining 400MW line. We think that the entity which awarded the project is also liable for the project's delay, as it provided transmission networks for only 800MW, not for 2,000MW. As such, when all the lines are built, the company should be able to write back part of W85.0bn it booked as liquidated damages.

Maintain BUY but lower TP to W8,500

We cut our TP to W8,500 (-12.4%) to reflect downward revisions to 2015 earnings forecasts (-8.9% for OP, -11.1% for NP vs. previous forecasts). But we reiterate a BUY rating on the company in view of improving margins for the domestic business.

BUY

| TP(12M): W8,500 | CP(Oct. 31): W6,550

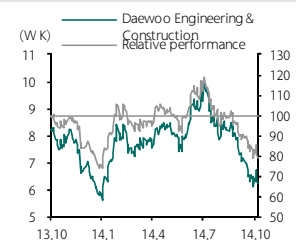
Key Data

KOSPI (pt)	1,964.43
52 week High/Low(W)	10,200/5,930
Market cap(W bn)	2,722.3
Market cap weight(%)	0.23
Shares out ('000)	415,622.6
60-Day avg. daily volume('000)	851.5
60-Day avg. daily value(W bn)	6.9
DPS Est. (W, 2014)	0
DY Est. (% 2014)	0.00
Foreign ownership (%)	7.42
Major shareholders' stake (%)	
KDB Value 6th LLC and 2 persons	51.23
SEBT Investment Ltd	12.28
Performance	1M 6M 12M
Absolute	(14.7) (23.5) (23.7)
Relative	(12.3) (23.6) (21.2)

Consensus Data

	2014	2015
Sales (W bn)	9,627.7	10,250.1
OP (W bn)	466.4	503.0
NP (W bn)	259.8	326.9
EPS (W)	617	767
BPS (W)	6,901	7,675

Stock Price



Financial Data

		2012	2013	2014F	2015F	2016F
Sales	W bn	8,223.4	8,782.2	9,935.1	11,014.6	11,411.6
OP	W bn	345.7	(244.7)	477.5	532.5	581.3
PTP	W bn	227.9	(839.7)	232.5	415.5	473.3
NP	W bn	176.9	(717.8)	167.3	312.6	356.1
EPS	W	426	(1,727)	403	752	857
Chg	%	0.0	(505.4)	(123.3)	86.6	14.0
PER	X	23.38	N/A	16.27	8.71	7.64
PBR	X	1.20	1.14	0.95	0.86	0.77
EV/EBITDA	X	16.48	N/A	9.41	8.22	7.17
ROE	%	5.28	(24.13)	6.24	10.71	10.94
BPS	W	8,313	6,491	6,894	7,646	8,503
Net DER	%	68.8	96.3	77.8	62.3	47.2

Source: company data, Hana Daetoo Securities



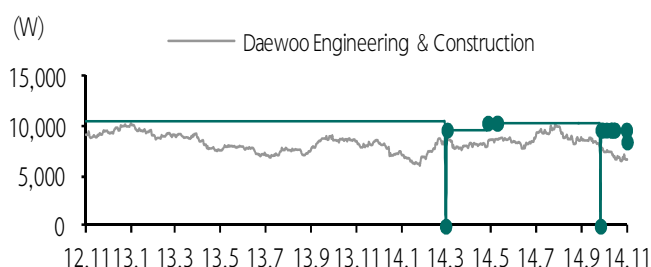
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Rating & Target Price Changes

Daewoo Engineering & Construction

Date	Rating	Target Price (W)
14.11.3	BUY	8,500
14.11.2	BUY	9,700
14.10.17	BUY	9,700
14.10.16	BUY	9,700
14.10.13	BUY	9,700
14.10.12	BUY	9,700
14.10.6	BUY	9,700
14.10.1	BUY	9,700
14.9.29	BUY	9,700
14.9.28	Analyst Change	0
14.5.12	BUY	10,400
14.5.11	BUY	10,400
14.4.29	BUY	10,400
14.3.5	BUY	9,700
14.3.3	Analyst Change	0



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Stock ratings for the next twelve months

BUY_ Target Price implies at least 15% upside potential
 Neutral_ Target Price implies less than 15% upside or downside potential
 Reduce_ Target Price implies at least 15% downside potential

Sector ratings for the next twelve months

Overweight_ Sector index implies at least 15% upside potential
 Neutral_ Sector index implies less than 15% upside or downside potential
 Underweight_ Sector index implies at least 15% downside potential

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