

# Daewoo E&C (047040)

Above

In line

Below

12M rating **Hold (Maintain)**

## Turnaround to be delayed

### Stock Data

KOSPI (Oct 31, pt)	1,964
Stock price (Oct 31, KRW)	6,550
Market cap (USD mn)	2,548
Shares outstanding (mn)	416
52-Week high/low (KRW)	10,200/5,930
6M avg. daily turnover (USD mn)	6.7
Free float / Foreign ownership (%)	46.4/7.4
Major shareholders (%)	
KDB Value 6th LLC and 2 others	51.2
SEBT Investment Ltd	12.3

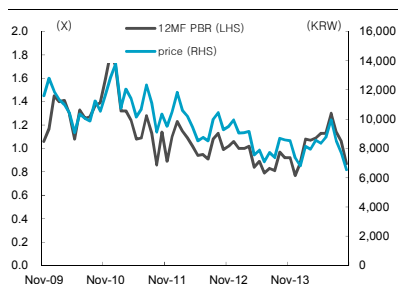
### Valuation

	2013A	2014F	2015F
PE (x)	NM	22.9	23.1
PB (x)	1.1	1.0	1.0
ROE (%)	(24.1)	4.5	4.3
EV/EBITDA (x)	NM	12.2	13.2
EPS (KRW)	(1,747)	286	283
BPS (KRW)	6,491	6,678	6,861

### Performance

	1M	6M	12M
Absolute (%)	(14.7)	(23.5)	(23.7)
Relative to KOSPI (%p)	(12.0)	(23.6)	(20.5)

### 12MF PB trend



Source: WISEfn consensus

### What's new: EBT disappoints on overseas project delays

Separate OP of W97.4bn (down 9.4% YoY) beat our estimate, but EBT of W5.7bn (down 91.5% YoY) was well below expectations due to cost overruns at several overseas projects on construction delays and related payments.

### Pros: Housing sales and margins up sharply

Housing sales grew 69.3% YoY and housing GP surged 120.5% YoY on a market recovery. SG&A expenses also fell sharply as the company reversed W19.2bn in provisions for the Incheon Namdong and Ulsan Shincheon #1 projects. We believe OP improved about W30bn as several housing projects were finished.

### Cons: Non-operating expenses persist, when will BPS improve?

Daewoo E&C booked non-operating expenses of W101.5bn, including W85bn in payments for delays at the Oman Sur project. These payments are usually booked as COGS, but management believes half will be possibly recovered, and booked the amount as a non-operating expense. We believe the persistent increases in non-operating expenses will erode earnings visibility. While OP remains intact, BPS improvements continue to be postponed. Daewoo E&C should break ground on long-delayed projects, including the Morocco Safi Power project and Saudi Arabia Jizan refinery in 4Q14. These projects should contribute to top-line growth, but COGS factors may have changed substantially as both projects were awarded two years ago. As such, progress needs to be closely monitored. Although our estimates remain at the bottom of consensus, we revise down 2014F NP by 38.9% and 2015F NP by 37.3% reflecting 3Q14 earnings and overseas uncertainty.

### Conclusion: Turnaround to be delayed, maintain Hold

All major builders have released 3Q14 results, and the builders have not been able to translate a better housing market into earnings growth due to the long-lasting and deep effects of low-priced overseas orders. We believe focusing on margins is more important than winning more overseas projects and presales volume given diverse external variables. Despite the recent share pullback, valuations are still unattractive as Daewoo E&C trades at 23.1x 2015 PE and 1.0x 2015 PB. We are waiting for signs that overseas uncertainty resolves until we upgrade our rating, we maintain Hold.

(W bn, %, %p)

	3Q14P				Change		2014F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	2,293	2,548	11.1	2,426	1.5	27.0	9,995	9,630
OP	84	97	15.9	107	(5.5)	(9.4)	362	475
OP margin	3.7	3.8	0.2pt	4.4	-0.3pt	-1.5pt	3.6	4.9
EBT	54	6	(89.5)	79	(86.1)	(91.5)	147	318
NP	48	2	(95.2)	59	(92.7)	(95.3)	111	242

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Table 1. Earnings revisions

(W bn)

	2014F			2015F		
	Previous	Revised	Diff	Previous	Revised	Diff
Sales	9,360	9,995	6.8%	9,959	10,115	1.6%
OP	375	362	-3.4%	350	308	-12.0%
OPM	4.0%	3.6%	-9.5%	3.5%	3.0%	-13.4%
Controlling-interest NP	183	112	-38.9%	185	116	-37.3%

Source: Korea Investment &amp; Securities

Table 2. Earnings forecast

(W bn)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14P	4Q14F	2013	2014F	2015F
Sales	2,269	2,327	2,020	2,166	2,165	2,546	2,584	2,699	8,782	9,995	10,115
YoY(%)	38.5	5.9	(9.6)	0.6	(4.6)	9.4	28.0	24.6	6.8	13.8	1.2
<b>(Parent sales)</b>	<b>2,031</b>	<b>2,310</b>	<b>2,007</b>	<b>2,121</b>	<b>2,073</b>	<b>2,511</b>	<b>2,584</b>	<b>2,697</b>	<b>8,468</b>	<b>9,865</b>	<b>10,115</b>
Building	413	501	428	558	466	635	585	612	1,900	2,297	2,110
Civil	222	321	281	333	225	329	291	287	1,156	1,132	895
Plant	125	126	98	86	77	72	66	45	434	260	296
Housing	414	512	481	592	613	735	789	839	2,000	2,975	3,008
Overseas	854	845	714	548	690	736	849	907	2,960	3,181	3,786
<b>(Parent COGS ratio)</b>	<b>90.5%</b>	<b>90.5%</b>	<b>89.6%</b>	<b>109.0%</b>	<b>89.9%</b>	<b>93.7%</b>	<b>93.8%</b>	<b>93.9%</b>	<b>96.5%</b>	<b>93.0%</b>	<b>92.8%</b>
Building	89.9	90.4	88.9	102.2	92.6	91.6	91.3	92.7	93.4	92.0	92.0
Civil	90.0	89.7	95.2	100.3	88.9	91.2	93.0	94.3	94.7	92.0	93.0
Plant	89.0	88.2	88.7	90.8	84.1	86.3	88.8	96.3	89.0	88.0	90.0
Housing	89.1	93.0	87.4	94.3	86.2	89.6	83.1	89.0	91.2	87.0	87.0
Overseas	91.8	89.6	89.1	140.1	91.9	101.4	105.9	99.4	103.8	100.0	98.0
OP	115	105	104	(569)	130	114	91	27	(245)	362	308
<b>(Parent OP)</b>	<b>109</b>	<b>108</b>	<b>108</b>	<b>(578)</b>	<b>120</b>	<b>103</b>	<b>97</b>	<b>42</b>	<b>(253)</b>	<b>362</b>	<b>308</b>
(Parent OPM)	5.4%	4.7%	5.4%	-27.3%	5.8%	4.1%	3.8%	1.6%	-3.0%	3.7%	3.0%
<b>Parent EBT</b>	<b>38</b>	<b>76</b>	<b>66</b>	<b>(1,052)</b>	<b>89</b>	<b>41</b>	<b>6</b>	<b>(3)</b>	<b>(871)</b>	<b>147</b>	<b>153</b>
NP	31	38	46	(834)	69	30	2	10	(744)	111	116
Controlling-interest NP	31	39	47	(834)	69	30	2	10	(718)	111	116

Source: Company data, Korea Investment &amp; Securities

**Balance sheet**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	6,717	6,949	8,404	8,505	8,440
Cash & cash equivalent	388	410	400	405	406
Accounts & other receivables	3,472	3,717	4,230	4,281	4,299
Inventory	1,427	1,483	1,599	1,618	1,524
Non-current assets	3,143	3,173	2,990	2,982	3,065
Investment assets	1,230	932	849	804	857
Tangible assets	698	698	698	698	698
Intangible assets	114	110	126	127	128
Total assets	9,859	10,122	11,394	11,487	11,505
Current liabilities	4,157	4,757	5,905	6,175	6,426
Accounts & other payables	1,541	1,726	1,999	2,023	2,032
ST debt & bond	875	1,085	1,085	1,085	1,085
Current portion of LT debt	442	513	533	503	473
Non-current liabilities	2,291	2,712	2,758	2,505	2,207
Debentures	650	950	900	700	450
LT debt & financial liabilities	823	505	455	385	332
Total liabilities	6,448	7,469	8,663	8,680	8,633
Controlling interest	3,353	2,596	2,674	2,750	2,815
Capital stock	2,078	2,078	2,078	2,078	2,078
Capital surplus	548	548	548	548	548
Other Reserves	(99)	(99)	(99)	(99)	(99)
Retained earnings	885	182	299	416	520
Minority interest	58	57	57	57	57
Shareholders' equity	3,411	2,654	2,731	2,807	2,872

**Cash flow**

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operating	(1,143)	(505)	90	361	489
Net profit	173	(718)	118	116	105
Depreciation	46	50	50	49	49
Amortization	6	9	10	10	10
Net incr. in W/C	(1,558)	(366)	(185)	176	321
Others	190	520	97	10	4
C/F from investing	67	274	(23)	(60)	(157)
CAPEX	(63)	(67)	(50)	(49)	(49)
Decr. in fixed assets	7	3	0	0	0
Incr. in investment	(40)	129	43	4	(92)
Net incr. in intangible assets	(14)	(4)	(25)	(12)	(11)
Others	177	213	9	(3)	(5)
C/F from financing	752	252	(76)	(296)	(330)
Incr. in equity	0	0	0	0	0
Incr. in debts	0	0	(76)	(296)	(330)
Dividends	0	0	0	0	0
Others	752	252	0	0	0
C/F from others	(1)	1	0	0	0
Increase in cash	(325)	21	(10)	5	2

Note: Based on K-IFRS (consolidated)

**Income statement**

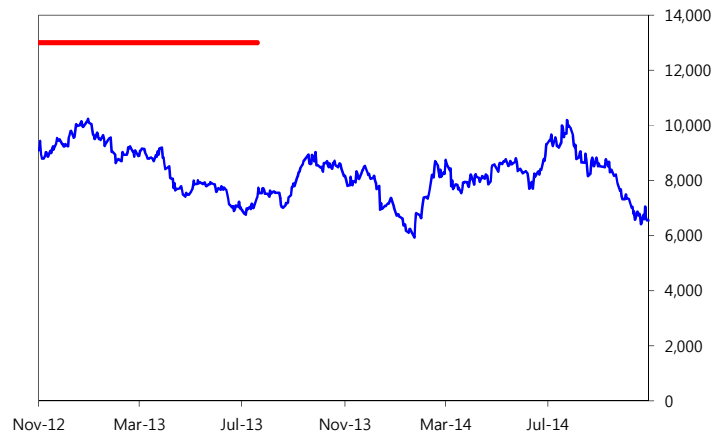
FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	8,223	8,782	9,995	10,115	10,158
COGS	7,404	8,442	9,303	9,387	9,443
Gross profit	820	340	692	728	715
SG&A expense	474	585	330	420	440
Operating profit	346	(245)	362	308	275
Financial income	42	33	34	35	35
Interest income	42	33	34	35	35
Financial expense	136	120	170	159	142
Interest expense	136	120	170	159	142
Other non-operating profit	(24)	(518)	(80)	(30)	(30)
Gains (Losses) in associates, subsidiaries and JV	0	9	0	0	0
Earnings before tax	228	(840)	147	153	138
Income taxes	55	(122)	29	37	33
Net profit	173	(718)	111	116	105
Net profit of controlling interest	177	(718)	111	116	105
Other comprehensive profit	(165)	(40)	(40)	(40)	(40)
Total comprehensive profit	8	(758)	77	76	65
Total comprehensive profit of controlling interest	18	(757)	77	76	65
EBITDA	397	(186)	422	367	335

**Key financial data**

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
per share data (KRW)					
EPS	431	(1,747)	286	283	255
BPS	8,313	6,491	6,678	6,861	7,017
DPS	0	0	0	0	0
Growth (%)					
Sales growth	17.1	6.8	13.8	1.2	0.4
OP growth	16.2	NM	NM	(15.0)	(10.6)
NP growth	(0.1)	NM	NM	(1.2)	(9.8)
EPS growth	0.0	NM	NM	(1.2)	(9.8)
EBITDA growth	11.2	NM	NM	(13.0)	(8.9)
Profitability (%)					
OP margin	4.2	(2.8)	3.6	3.0	2.7
NP margin	2.2	(8.2)	1.2	1.1	1.0
EBITDA margin	4.8	(2.1)	4.2	3.6	3.3
ROA	1.8	(7.2)	1.1	1.0	0.9
ROE	5.3	(24.1)	4.5	4.3	3.8
Dividend yield	-	-	-	-	-
Dividend payout ratio	0.0	NM	0.0	0.0	0.0
Stability					
Net debt (W bn)	2,346	2,557	2,469	2,166	1,834
Debt/equity ratio (%)	83.7	117.6	111.5	97.9	84.2
Valuation (X)					
PE	23.1	NM	22.9	23.1	25.7
PB	1.2	1.1	1.0	1.0	0.9
EV/EBITDA	16.2	NM	12.2	13.2	13.5

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Daewoo E&C (047040)	11-06-12	BUY	W13,000
	07-25-13	Hold	-



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