

Daewon (007680 KS)

Watch for progress on Vietnam projects from 2H19

BUY (Maintain)

CP (May. 20)	KRW16,500
TP (6 months)	KRW19,500
Upside	18.2%

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KOSPI	2,055.71p
KOSDAQ	702.08p
Market cap	KRW182.3bn/USD159.9mn
Par value	KRW500
Outstanding shares	11.1mn
Free float	1.8mn(15.9%)
52-week high/low	KRW16,500/KRW11,000
60-day avg. trading volume	56,664shrs
60-day avg. turnover	KRW804mn
Foreign ownership	3.74%
Major shareholders	
Daewon Holdings and 6 others	82.20%
Absolute performance	3M 28.4%
	6M 37.5%
	12M 15.4%
Relative performance	3M 37.3%
to KOSDAQ	6M 35.3%
	12M 42.9%

- ◆ 1Q19 consolidated operating profit estimated at KRW6.2bn (+8.9% YoY)
- ◆ Expectations to grow for Vietnam projects towards 2H19
- ◆ Retain BUY and raise target price to KRW19,500

1Q19 consolidated operating profit estimated at KRW6.2bn (+8.9% YoY)

Daewon is expected to have secured consolidated sales of KRW55.2bn (-32.8% YoY) and operating profit of KRW6.2bn (+8.9% YoY) in 1Q19. The company now has just a few ongoing projects, including one housing subcontract in Jeungpo-dong, Icheon (KRW57.8bn) and two in-house projects in Dongnam, Cheongju (KRW200bn combined), and thus faces an inevitable downturn in sales. Sales are unlikely to rebound until construction starts for housing projects in Suyu-dong, Seoul (KRW40bn, subcontract order intake in December 2018) and Wondang-dong, Incheon (KRW110bn, order intake in February 2019) in 2H19.

We believe profitability remained relatively solid through 1Q19. Operating margin likely improved by 4.3%p YoY to 11.2% on increased sales contribution from high-margin in-house projects (two in Cheongju). Despite the sharp YoY decline in sales, we remain upbeat on improvement in profit margins.

Expectations to grow for Vietnam projects towards 2H

Daewon is reportedly in talks with developers and government agencies in Vietnam regarding several local projects. Towards 2H19, expectations should grow for two projects the company has been pushing for in Vietnam: 1) the KRW123bn property development project in Hanoi (office/apartment complexes on 12,000-pyeong property; 2H19-1H22F) through a joint venture with Vietnam Manufacturing and Export Processing (VMEP); and 2) the KRW180bn housing project in Da Nang (total 1,400 units in two apartment buildings; 2H19-1H23F). Faster progress on Vietnam projects should drive a further rally of shares through 2H19. Meanwhile, negotiations on project details are currently underway for the Southeast Economic Zone development project in Quang Tri Province, following completion of the feasibility study in December 2018.

Retain BUY and raise target price to KRW19,500

Daewon shares gained 23% over the past one month, reaching our previous target price of KRW15,500 as a result. Applying a 20% premium to the 2018 peak PBR to arrive at a target PBR of 0.74x for 2019, we raise our target price for Daewon to KRW19,500. Domestic earnings should decline in 2019, but expectations remain upbeat for visible progress on Vietnam projects from 2H19 and future growth in earnings. For Daewon, we recommend focusing on mid/long-term growth potential than earnings results in 2019.

Year to	Sales	OP	Pre-tax	NP	EPS	Growth	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(%)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2017	270.0	23.1	33.3	22.8	2,248	(40.6)	21,808	4.8	1.2	0.5	9.9	(41.0)
2018	333.0	28.6	43.5	30.1	2,723	21.1	24,678	4.2	1.4	0.5	11.7	(34.4)
2019F	227.4	24.9	32.2	23.1	2,091	(23.2)	26,519	7.9	7.1	0.6	8.2	(4.8)
2020F	264.3	18.6	30.5	22.0	1,990	(4.9)	28,259	8.3	14.7	0.6	7.3	25.6
2021F	339.5	27.8	40.5	29.2	2,639	32.6	30,648	6.3	12.6	0.5	9.0	44.7

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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Earnings trend and outlook (K-IFRS consolidated)												
(bn KRW)	1Q18	2Q18	3Q18	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	2018	2019F	2020F	2021F
Consolidated sales	82.2	87.0	97.2	70.8	55.2	54.8	66.5	50.9	337.2	227.4	264.3	339.5
Standalone sales	74.3	84.6	94.6	66.1	50.0	49.5	59.1	42.5	319.6	201.0	238.1	313.6
In-house projects	40.8	41.2	61.1	29.4	27.8	28.2	31.5	13.9	172.4	101.4	19.0	24.8
Contract works	32.3	41.4	31.9	35.2	20.6	19.8	26.1	27.1	140.9	93.7	213.3	283.2
- Housing	28.4	36.6	26.2	18.8	5.2	5.7	14.2	17.0	110.1	42.1	182.8	256.0
- Civil engineering	3.9	4.8	5.7	16.4	15.4	14.1	12.0	10.1	30.8	51.6	30.6	27.2
Others	1.1	2.1	1.6	1.5	1.5	1.5	1.5	1.5	6.3	5.9	5.8	5.7
Consolidated subsidiaries	7.9	2.4	2.6	4.7	4.7	4.7	4.6	4.6	17.6	18.6	18.3	17.9
Consolidated gross profit	9.6	12.9	15.3	7.9	8.9	9.0	10.7	7.1	45.7	35.8	31.5	43.5
Standalone gross profit	9.3	12.4	14.6	8.0	8.3	8.4	9.9	6.2	44.4	32.7	28.6	40.6
In-house projects	8.8	8.8	8.4	6.3	6.0	6.2	7.0	3.1	32.4	22.3	4.0	5.3
Contract works	0.2	3.1	5.8	1.5	1.9	1.9	2.5	2.7	10.7	9.0	23.3	34.0
Others	0.3	0.5	0.3	0.3	0.4	0.4	0.4	0.4	1.4	1.5	1.3	1.3
Consolidated subsidiaries	0.3	0.4	0.7	(0.1)	0.6	0.6	0.8	1.0	1.3	3.0	2.9	2.9
SG&A	3.9	4.3	3.7	5.3	2.7	2.6	3.1	2.4	17.2	10.8	12.9	15.7
OP	5.7	8.5	11.6	2.7	6.2	6.4	7.6	4.7	28.5	24.9	18.6	27.8
Equity method gains	0.0	(0.6)	(0.0)	0.7	0.0	0.0	0.0	0.0	0.1	0.0	4.1	4.1
Pre-tax profit	12.7	12.2	12.9	5.6	7.9	8.3	9.3	6.6	43.4	32.1	30.6	40.5
NP of controlling interests	10.4	10.3	9.0	0.5	5.7	6.0	6.7	4.8	30.1	23.1	22.0	29.2
<% YoY growth>												
Sales				(75.6)	(32.8)	(37.0)	(31.6)	(28.0)	16.3	(32.5)	16.2	28.5
OP				(88.8)	8.9	(24.8)	(34.6)	76.2	18.4	(12.5)	(25.3)	49.4
NP of controlling interests				(98.0)	(45.4)	(41.8)	(25.4)	935.5	32.2	(23.2)	(4.7)	32.6
<Margin, %>												
OPM	6.9	9.8	11.9	3.8	11.2	11.7	11.4	9.3	8.5	11.0	7.0	8.2
NPM	12.6	11.8	9.3	0.6	10.3	10.9	10.1	9.4	8.9	10.2	8.3	8.6

Source: Company data, Shinhan Investment Corp.

1Q19 preview							
(bn KRW)	1Q19F	4Q18	% QoQ	1Q18	% YoY	Previous	Consensus
Sales	55.2	70.8	(22.0)	82.2	(32.8)	41.6	41.6
OP	6.2	2.7	130.4	5.7	8.9	6.2	6.2
NP of controlling interests	5.7	0.5	1,131.2	10.4	(45.4)	5.7	5.7
OPM (%)	11.2	3.8		6.9		14.9	14.9
NPM (%)	10.3	0.6		12.6		13.7	13.7

Source: Company data, FnGuide, Shinhan Investment Corp.

Earnings forecast revision (K-IFRS consolidated)						
(bn KRW)	2019F			2020F		
	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	190.5	227.4	19.4	253.8	264.3	4.1
OP	27.2	24.9	(8.3)	25.6	18.6	(27.2)
NP of controlling interests	24.7	23.1	(6.4)	26.9	22.0	(18.2)

Source: Shinhan Investment Corp.

Expansion into Vietnam

2001.01	Establishment of Daewon Vina
2002.02	Establishment of Daewon Textile Vietnam
2004.02	Establishment of Daewon Thuduc Housing Development
2006.12	Completion of Cantavil An Phu phase 1
2010.01	Completion of Cantavil Hoan Cau
2011.01	Establishment of Daewon E&C
2014.03	Completion of Cantavil Premier An Phu phase 2
2015.09	Construction completed for first E-Mart store in Ho Chi Minh City
2018.01	MOU signed for development project in Quang Tri Southeast Economic Zone
2018.05	Establishment of joint venture with a local firm for property development in Hanoi
2018.08	Agreement signed with a local firm for apartment complex construction in Da Nang (1,400 units)

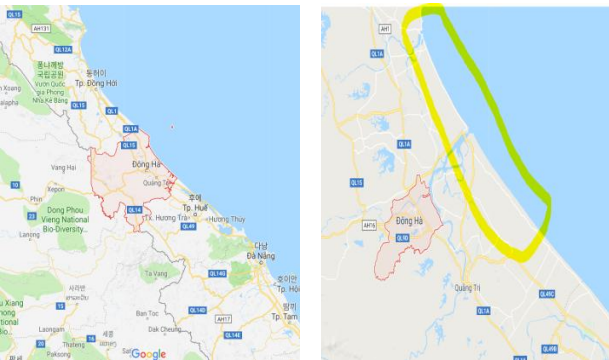
Source: Company data, Shinhan Investment Corp.

Projects in Vietnam

Project	Project manager	Type	Project scale	Project period	Sales (bn KRW)
Cantavil An Phu phase 1 (Ho Chi Minh)	Daewon Thuduc Housing	Apartments	390 units (three 16-story buildings)	Jan. 2005 - Dec. 2006	82.1
Cantavil Hoan Cau (Ho Chi Minh)	Daewon Hoan Cau Housing	Apartments	189 units (one 18-story building)	Apr. 2006 - Jan. 2010	52.0
Cantavil Premier An Phu phase 2 (Ho Chi Minh)	Daewon Thuduc Housing	Apartments/stores	200 units (two 36-story buildings), stores	Jul. 2010 - Mar. 2014	85.3
Da Phuoc International New Town (Ho Chi Minh)	Daewon Cantavil	Civil engineering	Reclamation project (300,000 pyeong)	2008-2014	2.9
E-Mart Go Vap (Ho Chi Minh)	Daewon E&C	Building works	First E-Mart store in Vietnam	Mar. 2015 - Dec. 2015	4.3
Centum Wealth (Ho Chi Minh)	Daewon Centum Wealth	Apartments	544 units	Dec. 2017 - Feb. 2020	56.0
VMEP property development (Hanoi)	Daewon (Vietnamese arm)	Apartments/offices	12,000-pyeong property development	2H19 - 1H22	123.0
Apartment complex (Da Nang)	Daewon (Korean arm)	Apartments	1,400 units (two buildings)	2H19 - 1H23	180.0

Source: Company data, Shinhan Investment Corp.

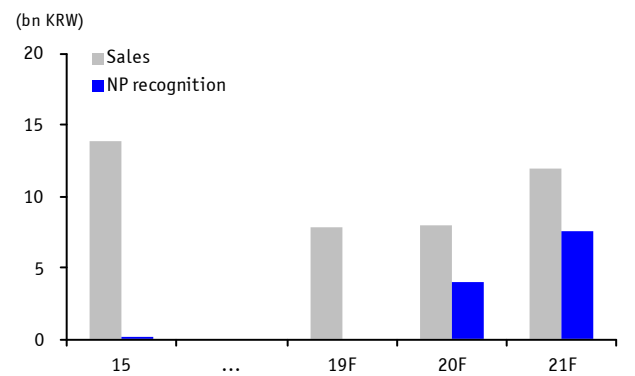
Development project in Quang Tri Southeast Economic Zone (feasibility study in Dec. 2018, negotiations in progress)



Source: Company data, Shinhan Investment Corp.

Note: Quang Tri Province (left), Southeast Economic Zone (right)

Vietnam earnings outlook



Source: Company data, Shinhan Investment Corp.

- Note: 1) 2015: Cantavil Premier An Phu phase 2 (earnings of subsidiary Daewon Thuduc)
- 2) 2020F: Expected revenue from Centum Wealth apartment presales
- 3) 2021F: Expected revenue from subsidiary projects in Da Nang and Hanoi

PBR valuation: Target price of KRW19,500

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2018 total shareholders' equity	272.7	2019F total shareholders' equity	293.0	2020F total shareholders' equity	312.3
BPS (KRW)	24,678	BPS (KRW)	26,519	BPS (KRW)	28,259
Target price (KRW)	18,200	Target price (KRW)	19,500	Target price (KRW)	20,000
Target PBR (x)	0.74	Target PBR (x)	0.74	Target PBR (x)	0.74
		Current price (KRW)	16,500		
		Current PBR (x)	0.62		

Source: Shinhan Investment Corp.

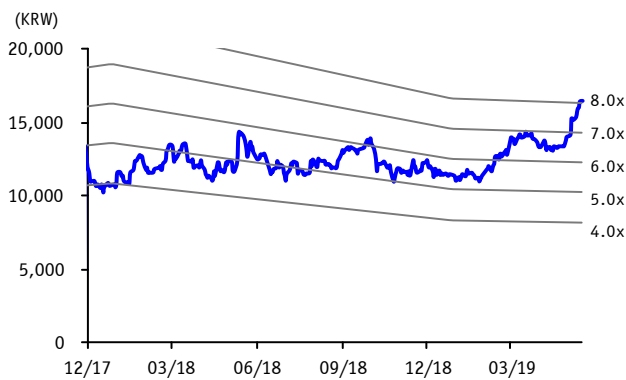
Note: Target PBR of 0.74x reflects a 20% premium to the end-2018 peak PBR of 0.62x. Sales are likely to decline on a YoY basis in 2019, but expectations should grow from 2H19 for visible progress on previously-planned Vietnam projects. Reflecting upbeat forecasts, we revise up our target price for Daewon.

Peer group valuation

	(x)	2014	2015	2016	2017	2018	Past 3-year average
Hanshin E&C	PBR (term-end)	0.7	0.8	0.6	0.7	0.4	0.6
Samho International	PBR (term-end)	1.4	1.3	1.0	0.7	0.6	0.8
Kumho Industrial	PBR (term-end)	2.6	1.8	1.1	0.9	1.2	1.1
Hanshin E&C	PER (term-end)	N/A	9.1	6.0	3.3	1.2	3.5
Samho International	PER (term-end)	6.9	5.9	3.4	3.5	3.4	3.4
Kumho Industrial	PER (term-end)	7.1	N/A	9.5	3.6	N/A	6.6

Source: Shinhan Investment Corp.

12-month forward consolidated PER band



Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



Source: QuantiWise, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Total assets	429.7	444.5	731.6	844.1	895.9
Current assets	330.0	346.3	653.6	762.1	805.1
Cash and equivalents	118.2	131.0	352.5	332.2	252.9
Accounts receivable	2.6	0.8	0.5	0.6	0.8
Inventories	109.7	58.0	193.8	305.1	391.9
Non-current assets	99.7	98.3	78.0	82.0	90.8
Tangible assets	30.4	18.9	18.3	17.7	17.1
Intangible assets	3.0	3.0	2.9	2.9	2.8
Investment assets	44.3	48.1	28.5	33.1	42.5
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	168.9	157.5	423.2	515.6	539.7
Current liabilities	136.2	103.3	163.0	171.4	147.6
Short-term borrowings	36.8	36.1	37.1	38.1	39.1
Accounts payable	40.0	35.3	24.1	28.0	36.0
Current portion of long-term debt	0.0	0.0	80.0	80.0	40.0
Non-current liabilities	32.7	54.2	260.3	344.2	392.1
Bonds	0.0	12.9	12.9	12.9	12.9
Long-term borrowings	3.4	6.1	223.4	303.4	343.4
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	260.8	287.0	308.3	328.5	356.1
Capital stock	5.5	5.5	5.5	5.5	5.5
Capital surplus	14.5	16.2	16.2	16.2	16.2
Other capital	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
Accumulated other comprehensive income	(4.4)	(3.5)	(3.5)	(3.5)	(3.5)
Retained earnings	227.7	256.8	277.1	296.3	322.7
Controlling interest equity	241.0	272.7	293.0	312.3	338.7
Non-controlling interest equity	19.8	14.3	15.3	16.2	17.4
*Total debt	40.3	55.3	353.4	434.4	435.5
*Net debt (cash)	(106.8)	(98.7)	(14.7)	84.0	159.1

Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Cash flow from operations	2.6	4.8	(101.7)	(92.2)	(63.9)
Net profit	23.6	30.7	24.1	22.9	30.4
Depreciation expense	1.9	1.3	0.6	0.6	0.6
Amortization expense	0.1	0.1	0.1	0.1	0.1
FX translation loss (gain)	0.1	(0.4)	0.0	0.0	0.0
Asset disposal loss (gain)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Equity method loss (gain)	0.1	(2.5)	(0.6)	(0.6)	(0.6)
Change in working capital	(17.8)	(23.2)	(125.6)	(114.9)	(94.0)
(Payment of income tax)	(4.5)	(16.8)	(8.0)	(7.6)	(10.1)
Others	(0.9)	15.6	7.7	7.3	9.7
Cash flow from investments	62.5	(14.7)	27.7	(6.3)	(13.8)
Increase in tangible assets	(5.1)	(0.7)	0.0	0.0	0.0
Decrease in tangible assets	0.5	0.1	0.0	0.0	0.0
Change in intangible assets	(2.0)	(0.0)	0.0	0.0	0.0
Change in investment assets	36.7	(12.5)	20.2	(4.0)	(8.8)
Others	32.4	(1.6)	7.5	(2.3)	(5.0)
Free cash flow	28.3	(22.1)	(94.4)	(104.4)	(81.0)
Cash flow from financing	20.7	21.6	295.4	78.3	(1.7)
Change in borrowings	5.9	21.0	298.2	81.0	1.0
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	(0.3)	(2.8)	(2.8)	(2.8)
Others	14.8	0.9	(0.0)	0.1	0.1
Other cash flow	(1.2)	0.6	0.0	0.0	0.0
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(1.9)	0.6	0.0	0.0	0.0
Change in total cash	82.7	12.8	221.4	(20.2)	(79.4)
Beginning cash	35.5	118.2	131.0	352.4	332.2
Ending cash	118.2	131.0	352.4	332.2	252.8

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Sales	270.0	333.0	227.4	264.3	339.5
Growth (%)	1.0	23.3	(31.7)	16.2	28.5
COGS	230.3	287.5	191.7	232.8	295.9
Gross profit	39.8	45.5	35.8	31.5	43.5
GPM (%)	14.7	13.7	15.7	11.9	12.8
SG&A	16.7	16.9	10.8	12.9	15.7
Operating profit	23.1	28.6	24.9	18.6	27.8
Growth (%)	32.1	23.9	(12.8)	(25.3)	49.4
OPM (%)	8.5	8.6	11.0	7.0	8.2
Non-operating profit	10.2	14.9	7.2	11.9	12.7
Financial profit	(2.0)	5.1	6.0	6.7	7.5
Other non-operating profit	12.0	9.7	1.2	1.2	1.2
Equity method gain (loss)	0.3	0.1	0.0	4.0	4.0
Pre-tax profit	33.3	43.5	32.2	30.5	40.5
Income tax	11.0	11.7	8.0	7.6	10.1
Continuing operations	22.5	31.8	24.1	22.9	30.4
Discontinued operations	1.3	(1.1)	(0.1)	0.0	0.0
Net profit	23.6	30.7	24.1	22.9	30.4
Growth (%)	(38.0)	30.1	(21.6)	(4.9)	32.6
NPM (%)	8.7	9.2	10.6	8.7	8.9
Controlling interest	22.8	30.1	23.1	22.0	29.2
Non-controlling interest	0.8	0.6	1.0	0.9	1.2
Comprehensive income	7.2	32.2	24.1	22.9	30.4
Controlling interest	8.7	31.0	23.2	22.1	29.3
Non-controlling interest	(1.5)	1.2	0.9	0.8	1.1
EBITDA	25.1	30.0	25.6	19.3	28.4
Growth (%)	28.4	19.6	(14.6)	(24.8)	47.6
EBITDA margin (%)	9.3	9.0	11.3	7.3	8.4

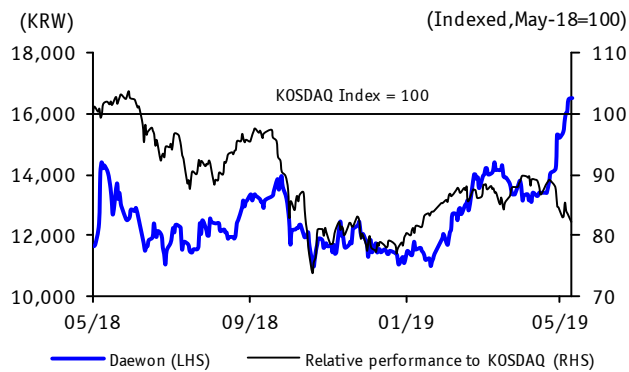
Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	2,331	2,779	2,179	2,073	2,749
EPS of controlling interest (KRW)	2,248	2,723	2,091	1,990	2,639
BPS (KRW)	23,599	25,973	27,902	29,725	32,224
BPS of controlling interest (KRW)	21,808	24,678	26,519	28,259	30,648
DPS (KRW)	200	250	250	250	250
PER (x)	4.6	4.1	7.6	8.0	6.0
PER of controlling interest (x)	4.8	4.2	7.9	8.3	6.3
PBR (x)	0.5	0.4	0.6	0.6	0.5
PBR of controlling interest (x)	0.5	0.5	0.6	0.6	0.5
EV/EBITDA (x)	1.2	1.4	7.1	14.7	12.6
Dividend payout ratio (%)	1.5	9.2	12.0	12.6	9.5
Dividend yield (%)	1.9	2.2	1.5	1.5	1.5
Profitability					
EBITDA margin (%)	9.3	9.0	11.3	7.3	8.4
OPM (%)	8.5	8.6	11.0	7.0	8.2
NPM (%)	8.7	9.2	10.6	8.7	8.9
ROA (%)	5.5	7.0	4.1	2.9	3.5
ROE (%)	9.9	11.7	8.2	7.3	9.0
ROIC (%)	8.6	16.3	9.1	4.3	4.8
Stability					
Debt to equity ratio (%)	64.8	54.9	137.3	157.0	151.6
Net debt ratio (%)	(41.0)	(34.4)	(4.8)	25.6	44.7
Cash ratio (%)	86.8	126.8	216.3	193.8	171.4
Interest coverage ratio (x)	192.9	286.4	58.3	22.6	30.6
Activity (%)					
Working capital turnover (times)	3.0	3.2	1.2	0.9	0.8
Inventory turnover (days)	139.7	91.9	202.1	344.5	374.7
Receivable turnover (days)	2.7	1.9	1.1	0.8	0.8

Source: Company data, Shinhan Investment Corp.

Daewon (007680 KS)

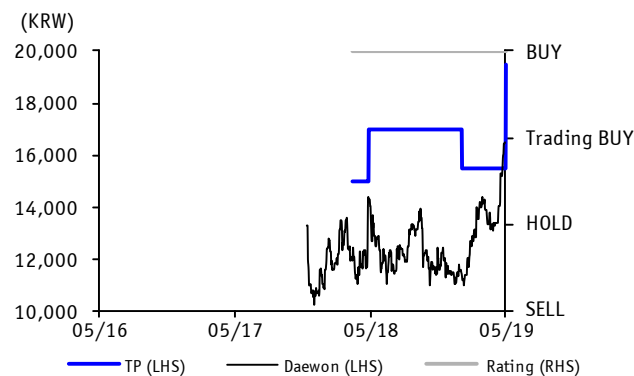
Share performance



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2018.04.03	BUY	15,000	(20.1)	(4.0)
2018.05.17	BUY	17,000	(27.5)	(15.9)
2018.11.18		6M later	(31.4)	(26.8)
2019.01.23	BUY	15,500	(13.0)	6.5
2019.05.21	BUY	19,500	-	-

Note: Calculation of target price gap based on past 6 months

Target price



Rating Distribution - SHIC Universe (as of 17 May 2019)

BUY (BUY)	97.14%	Trading BUY (HOLD)	0.95%	HOLD (HOLD)	1.9%	SELL (SELL)	0%
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Rating Distribution - SHIC Investment Banking Clients (as of 21 May 2019)

BUY (BUY)	91.30%	Trading BUY (HOLD)	4.35%	HOLD (HOLD)	4.35%	SELL (SELL)	0%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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