

## Korea

6 May 2004

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## Overweight

Maintained

Ticker: 056000.KQ

Share price (04/05/04): W16,350

Price target (6mos): W20,000

52-Wk Hi/Low: W25,100/12,000

Market cap: US\$75.2mn

W88.1bn

Shares issued: 5.4mn shr

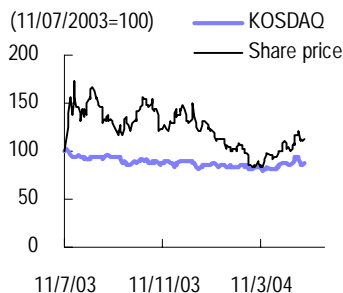
Foreign ownership: 3.17%

Major shareholders:

Nam-Gyu Park (23.4%)

Price performance (%)

	1M	6M	12M
Absolute	12.4	-18.7	NA
Relative	14.5	-25.4	NA



# Cowon Systems

## Back on track

- We reiterate **Overweight** recommendation on Cowon Systems with our price target of **W20,000** unchanged.
- 1Q04 sales and operating profit increased by 183% and 93% yoy to W16.7bn and W2.1bn, respectively. Strong wireless internet contents sales posted W9.5bn offsetting sluggish MP3 player sales of W7.2bn. However, operating margin in 1Q04 recorded 12.6%, less than the 18.5% in the previous quarter due to an increase in low-end MP3 player and wireless internet contents sales.
- In 2Q04E, the company's sales are likely to decrease on a qoq basis as wireless internet contents sales peter out. However, profits should improve thanks to the recovery in MP3 players. Since March, sales of its new product, iAudio-4, have been growing continuously in the domestic market while the company's hard-disk type MP3 players are gaining brand recognition in Japan and Europe. In addition, ailing sales in the US are likely to rebound starting this May on the back of aggressive marketing of MP3 players, in particular iAudio-4.

### Forecasts/Valuation

FY	Sales (W bn)	NP (W bn)	EPS (W)	P/E (x)	P/BV (x)	EV/EBITDA (x)	ROE (%)
12/01	8.5	1.8	426	-	-	-	31.6
12/02	16.8	3.6	853	-	-	-	42.6
12/03	26.4	3.0	640	29.7	6.3	26.8	19.8
12/04E	56.8	7.7	1,437	11.4	3.8	8.5	31.6
12/05E	64.7	9.3	1,736	9.4	2.8	6.7	28.3

Source: Company data, Daewoo Securities estimates

### Figure 1. Quarterly Earnings Estimates

(W bn, %)	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04E	3Q04E	4Q04E	% yoy	% qoq
Sales	5.9	6.6	6.8	7.1	16.7	12.8	13.2	14.2	18.3	13.5
Operating Profit	1.1	1.4	0.4	0.4	2.1	2.1	2.5	2.3	9.3	45.2
Pretax Profit	1.2	1.4	0.4	0.6	2.3	1.9	2.5	2.2	9.6	31.5
Net Profit	1.0	1.1	0.5	0.4	2.0	1.6	2.1	1.9	10.1	43.0
Operating Margin	18.5	21.4	5.6	5.5	12.6	16.7	19.1	16.1		
Pretax Margin	19.5	20.5	5.7	7.8	13.5	15.1	18.9	15.5		
Net Margin	16.8	16.8	7.5	6.1	11.9	12.9	16.2	13.2		

Source: Company data, Daewoo Securities estimates.

Figure 2. Cowon Systems - Financial Statement

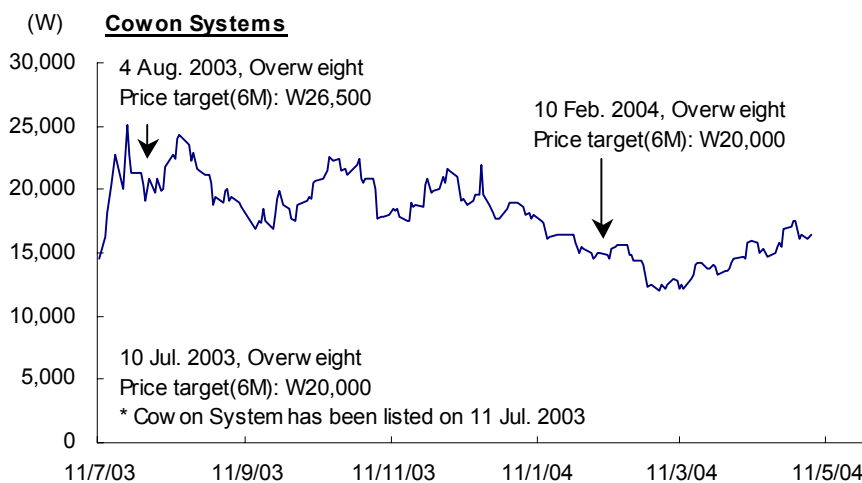
BALANCE SHEET PROJECTION					PRO FORMA INCOME STATEMENT				
(W bn)	2002	2003	2004E	2005E	(W bn)	2002	2003	2004E	2005E
Current Assets	5.9	16.4	23.7	31.0	Sales	16.8	26.4	56.8	64.7
Cash & Bank Deposits	1.6	1.5	0.8	1.3	Gross Profit	5.9	7.6	18.0	21.3
ST Financial Instruments	0.0	0.2	2.5	5.5	OP. Profit	3.2	3.3	9.0	10.7
Receivables	2.4	4.7	10.6	12.7	Net Non-Oper. Exp	0.0	-0.2	0.1	0.0
Inventories	1.7	8.9	8.4	9.8	Net Forex Exp.	0.1	0.0	0.0	0.0
Fixed Assets	6.1	11.8	13.3	14.9	Net Financial Exp.	0.0	-0.1	0.1	0.0
Investment Asset	3.9	6.9	7.8	8.6	Rec. Profit	3.1	3.4	8.8	10.7
Tangible Assets	0.3	0.8	0.6	0.7	Net Extraordinaries	0.0	0.0	0.0	0.0
Total Assets	12.0	28.2	37.0	45.8	Pretax Profit	3.1	3.4	8.8	10.7
Current Liabilities	1.6	7.6	8.9	8.4	Net Profit	3.6	3.0	7.7	9.3
Payables	0.1	1.8	2.6	2.9	Free Cash Flow	1.4	-9.1	4.6	8.0
ST Bor. & Curr. Port. of LTD	0.0	4.8	4.8	3.0	EBITDA	3.5	3.9	10.5	12.6
Long-term Liabilities	0.1	0.1	0.0	0.0	EBITDA Margin(%)	21.0	14.9	18.5	19.4
Bonds & LT Borrowings	0.0	0.0	0.0	0.0	Gross Profit to Sales(%)	35.3	28.6	31.7	32.9
Total Liabilities	1.7	7.7	8.9	8.5	OP. Profit to Sales(%)	18.9	12.4	15.8	16.5
Paid-in Capital	2.1	2.7	2.7	2.7	Rec. Profit to Sales(%)	18.7	13.0	15.6	16.5
Surplus	8.0	17.7	25.4	34.7	Net Profit to Sales(%)	21.3	11.5	13.5	14.3
Total Shareholders' Equity	10.2	20.4	28.1	37.4					

Note: Free Cash Flow = Cash flow from Oper. - CAPEX

CASH FLOW PROJECTION					VALUATION				
(W bn)	2002	2003	2004E	2005E	(W, %, x)	2002	2003	2004E	2005E
Cash Flow from Oper.	3.4	-5.7	5.1	8.7	EPS (W)	853	640	1,437	1,736
Net Profit	3.6	3.0	7.7	9.3	SPS (W)	4,003	5,558	10,642	12,119
Depreciation	0.3	0.4	0.7	0.6	BVPS (W)	1,999	3,033	4,311	5,912
Amortization	0.1	0.3	0.9	1.2	P/E (x)	0.0	29.7	11.4	9.4
Change in Net W/C	-0.9	-7.9	-4.6	-3.1	P/S (x)	0.0	3.4	1.5	1.3
Others	0.4	-1.6	0.4	0.7	P/BV (x)	0.0	6.3	3.8	2.8
Cash Flow from Inv.	-2.5	-6.2	-4.5	-6.4	Dividend Ratio(%)	0	0	0	0
CAPEX	-2.1	-3.4	-0.5	-0.7	Dividend Yield(%)	0.0	0.0	0.0	0.0
Asset Disposal	0.0	0.0	0.0	0.0	EV/EBITDA (x)	0.0	26.8	8.5	6.7
Chg. in Investment Assets	-0.2	-2.6	-0.8	-0.8	Interest Coverage Ratio(x)	0.0	320.7	89.7	107.1
Others	-0.2	-0.2	-3.2	-4.9	D/E Ratio (%)	17.0	37.9	31.6	22.6
Cash Flow from Financing	0.0	11.8	0.2	-1.8	Borrowings to Sales (%)	0.0	9.0	8.4	6.0
Borrowings	0.0	4.7	0.2	-1.8	ROE(%)	42.6	19.8	31.6	28.3
Right Issues	0.0	6.9	0.0	0.0	ROIC(%)	75.2	29.2	42.1	40.8
Dividend	0.0	0.0	0.0	0.0					
Others	0.0	0.2	0.0	0.0	Interest Coverage Ratio: OP. Profit / Interest Expenses				
Chg. in Cash	1.0	-0.1	0.8	0.5	Stock Price: W16,350 (04/05/2004)				

Source: Company data, Daewoo Securities estimates

**Record of Ratings and Target Prices of the Subject Company**



**Rating Allocation**

	% of companies under coverage	% for which IB services have been provided
Overweight	57.46%	1.33%
Equal-weight	42.54%	4.85%
Underweight	0.00%	0.00%

As of 30 April 2004

Source: Equity Research for International Investors, Daewoo Securities

Important notices to continue to next page

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Summarized version of this report available in Daewoo Securities, 'Korea Daily Focus' on 7 May 2004.

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Risk Rating	Target Return
Overweight	> +15%
Equal-weight	-15% - +15%
Underweight	< -15%

- Rank is a guide to the expected total return over the next 6-12 months unless separately specified otherwise.
- The target return is relative to the market index, which is assumed to be constant at current level.
- Although it is not part of the official ratings at ERII, we may call a trading opportunity in case there is a technical or short-term material development.

**Analyst Industry Ratings of ERII, Daewoo Securities**

<b>Positive</b>	Industry fundamentals are improving
<b>Neutral</b>	Industry fundamentals are steady without any material changes
<b>Negative</b>	Industry fundamentals are worsening