

Korea

4 August 2004

Jin-hyuk Lee
+82-2-768-3061
jhl525@bestez.com

Equal-weight

Downgraded

Ticker: 056000.KQ

Share price (03/08/04): W5,520

Price target (6mos): NA

52-Wk Hi/Low: W24,350/5,290

Market cap: US\$25.5mn

W29.8bn

Shares issued: 5.4mn shr

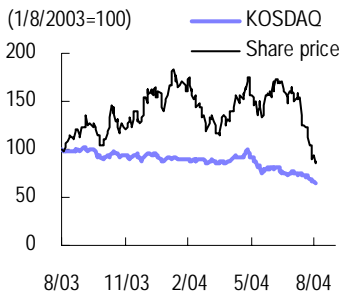
Foreign ownership: 4.54%

Major shareholders:

Nam-Gyu Park (23.2%)

Price performance (%)

	1M	6M	12M
Absolute	-37.6	-61.9	-73.6
Relative	-35.1	-56.0	-73.6



Cowon Systems

Dubious outlook on profit stability

- We downgrade our rating on Cowon Systems to **Equal-weight** based on 1) the company's unstable profitability due to intense competition and 2) weakening market sentiment.
- We expect 2Q04 sales to be in line with our estimates of W15bn benefiting from improved MP3 player sales in both the domestic and overseas market and aggressive marketing.
- Nevertheless, we anticipate a substantial qoq drop in operating profit in 2Q04 to W0.7bn on the grounds of higher-than-expected marketing expenses (W2bn) including W1.5bn in TV advertising cost.
- We believe 3Q04E earnings will largely depend on the sales performance of its Flash-type U2 and Hard-type M3. The company's outlook is weighed down by cutthroat competition which we expect to cast a shadow on profitability into 3Q despite 1) declining marketing expenses on a qoq basis and 2) decreasing cost stemming from waning Flash memory ASP.

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	61.5	5.5	1,028	5.4	1.4	4.2	23.7
12/05E	76.4	6.9	1,291	4.3	1.1	3.1	23.5

Source: Company data, Daewoo Securities estimates

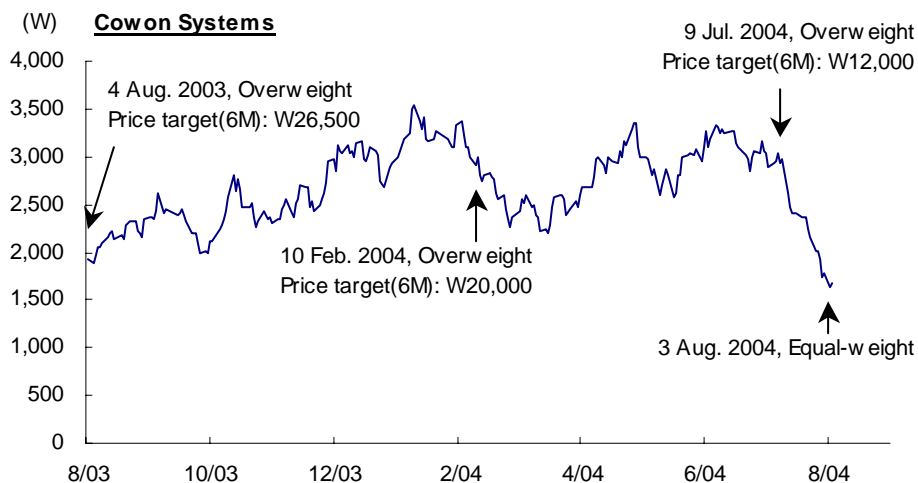
Figure 1. Cowon Systems - Financial Statement

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	25.4	33.6	Sales	16.8	26.4	61.5	76.4
Cash & Bank Deposits	1.6	1.5	2.7	2.1	Gross Profit	5.9	7.6	17.2	21.5
ST Financial Instruments	0.0	0.2	1.3	2.8	OP. Profit	3.2	3.3	6.3	8.0
Receivables	2.4	4.7	9.2	12.3	Net Non-Oper. Exp	0.0	-0.2	-0.1	0.0
Inventories	1.7	8.9	10.8	14.8	Net Forex Exp.	0.1	0.0	0.0	0.0
Fixed Assets	6.1	11.8	13.4	15.2	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	6.3	7.9
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	38.8	48.8	Pretax Profit	3.1	3.4	6.3	7.9
Current Liabilities	1.6	7.6	12.9	16.0	Net Profit	3.6	3.0	5.5	6.9
Payables	0.1	1.8	4.4	6.2	Free Cash Flow	1.4	-9.1	3.4	4.5
ST Bor. & Curr. Port. of LTD	0.0	4.8	7.0	6.3	EBITDA	3.5	3.9	7.9	9.9
Long-term Liabilities	0.1	0.1	0.0	0.0	EBITDA Margin(%)	21.0	14.9	12.8	13.0
Bonds & LT Borrowings	0.0	0.0	0.0	0.0	Gross Profit to Sales(%)	35.3	28.6	27.9	28.1
Total Liabilities	1.7	7.7	12.9	16.0	OP. Profit to Sales(%)	18.9	12.4	10.2	10.4
Paid-in Capital	2.1	2.7	2.7	2.7	Rec. Profit to Sales(%)	18.7	13.0	10.3	10.4
Surplus	8.0	17.7	23.2	30.1	Net Profit to Sales(%)	21.3	11.5	8.9	9.0
Total Shareholders' Equity	10.2	20.4	25.9	32.8	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	3.9	5.2	EPS (W)	853	640	1,028	1,291
Net Profit	3.6	3.0	5.5	6.9	SPS (W)	4,003	5,558	11,509	14,309
Depreciation	0.3	0.4	0.7	0.6	BVPS (W)	1,999	3,033	3,886	5,000
Amortization	0.1	0.3	0.9	1.3	P/E (x)	0.0	29.7	5.4	4.3
Change in Net W/C	-0.9	-7.9	-3.9	-5.2	P/S (x)	0.0	3.4	0.5	0.4
Others	0.4	-1.6	0.6	1.6	P/BV (x)	0.0	6.3	1.4	1.1
Cash Flow from Inv.	-2.5	-6.2	-3.4	-5.2	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	4.2	3.1
Chg. in Investment Assets	-0.2	-2.6	-0.8	-0.8	Interest Coverage Ratio(x)	0.0	320.7	62.6	79.8
Others	-0.2	-0.2	-2.1	-3.7	D/E Ratio (%)	17.0	37.9	49.8	48.8
Cash Flow from Financing	0.0	11.8	2.2	-0.6	Borrowings to Sales (%)	0.0	9.0	9.6	8.7
Borrowings	0.0	4.7	2.2	-0.6	ROE(%)	42.6	19.8	23.7	23.5
Right Issues	0.0	6.9	0.0	0.0	ROIC(%)	75.2	29.2	30.1	30.7
Dividend	0.0	0.0	0.0	0.0	Interest Coverage Ratio: OP. Profit / Interest Expenses				
Others	0.0	0.2	0.0	0.0	Stock Price: W5,520 (03/08/2004)				
Chg. in Cash	1.0	-0.1	2.7	-0.6					

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	53.88%	11.88%
Equal-weight	46.12%	14.18%
Underweight	0.00%	0.00%

As of 30 July 2004

Source: Equity Research for International Investors, Daewoo Securities

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DAEWOO SECURITIES INTERNATIONAL NETWORK

DAEWOO SECURITIES CO., LTD

150-716, 34-3, Youido-dong, Yongsongpo-ku, Seoul, Korea
 Tel : (822) 768-3568 Fax : (822) 768-2126
 Contact: Joseph Park josephpark@bestez.com

Daewoo Securities (Europe) Ltd.

41st floor, Tower 42, 25 Old Broad Street,
 London EC2N 1HQ, U.K.
 Tel : 4420-7982-8000 Fax : 4420-7982-8040
 Contact: Kevin Jee kevinjee@dwse.com

Daewoo Securities (Hong Kong) Ltd.

Suite 816-819, Jardine House,
 1 Connaught Place, Central, H.K., China
 Tel : 852-2845-6332 Fax : 852-2845-5374
 Contact: K. Y. Lee kylee@dws.com.hk

Uz-Daewoo Bank

1 Pushkin Street, Tashkent, 700000, Uzbekistan
 Tel : 998-71-1320640 Fax : 998-71-1206970

Daewoo Securities (America) Inc.

600 Lexington Avenue, Suite 301
 New York, NY 10022 U.S.A.
 Tel : 1212-407-1000 Fax : 1212-407-1010
 Contact: David Kim davidkim@dwsusa.com

Shanghai Woosang Investment Consulting Ltd.

NO. 555, Nanjing Road(West), Shanghai, CHINA 200041
 Tel : 8621-6215-5776 Fax : 8621-6255-4123

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Summarized version of this report available in Daewoo Securities, 'Korea Daily Focus' on 5 August 2004.

Analyst Stock Ratings of ERII (Equity Research for International Investors), Daewoo Securities Co., Ltd

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

Positive	Industry fundamentals are improving
Neutral	Industry fundamentals are steady without any material changes
Negative	Industry fundamentals are worsening