

BUY (maintain)

Woongjin Coway (021240)

Look Beyond Membership Program

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Current price (Feb 9)	KRW35,650
Fair value	KRW56,000
Reuters code	021240.KS
Bloomberg code	021240 KS
Industry/Sector	Other Consumer Services
Rating	Overweight
Market cap	USD2.5bn
Ordinary shares issued	77,124,796shrs
Free float	67.6%
KOSPI	2,045.58
KOSDAQ	525.74
Avg T/O Vol (60d)	310,766shrs
Avg T/O Val (60d)	USD10.8mn
Foreign ownership	46.7%
3yr CAGR of adj. EPS (10-12)	10.6%
Market's 3yr CAGR of adj. EPS	46.5%
52wk high/low	KRW45,850 KRW31,150
Beta (12M, daily return)	0.4
Major shareholders	Woongjin Holdings 31.1%

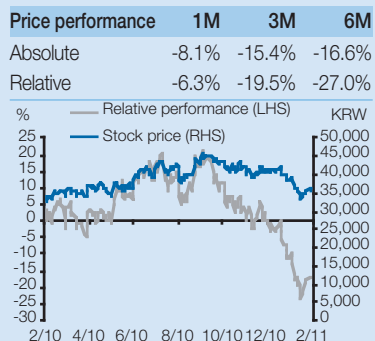
- **Flagship business's OP rose 10%YoY in 4Q10, exhibiting stable growth**
- **Domestic sales of home environment appliances very solid**
- **YoY OR growth in cosmetics business in China seems to have dropped to 20% range**
- **OP to rise about 7%YoY in 2011**
- **Share price likely to stage a turnaround**

Flagship business's OP rose 10%YoY in 4Q10, exhibiting stable growth

Woongjin Coway's 4Q10 OR reached KRW403.2bn (up 8.6%YoY) and OP KRW53.7bn (down 5.9%YoY), respectively, matching market consensus. Excluding the loss of KRW9bn incurred by the newly launched cosmetics business, OP in the flagship home environment appliance business seems to have increased 10%YoY. On the other hand, EBT beat estimate thanks to income tax refund at Woongjin Chemical (45%-held) despite sluggish earnings at the wholly owned subsidiary in China that stemmed from allowances made for retirement benefits and expanded losses in the home environment appliance business.

Domestic sales of home environment appliances very solid

Net increase in service membership reached about 340,000 (up 7%YoY) in 2010, the highest since 2006 thanks to the huge success of a high-end air purifier-humidifier model and new product launches (e.g., water softener) amid economic recovery. The number of service membership is expected to rise solidly in 2011 as in 2010, fueled by rollouts of new products tailored to meet customer needs such as air purifier-humidifier and food waste processors.



FY-end	12/08A	12/09A	12/10P	12/11F	12/12F
OR (KRWbn)	1,314.4	1,411.9	1,519.1	1,680.9	1,872.2
OP (KRWbn)	190.1	204.3	228.8	243.9	277.9
EBT (KRWbn)	184.8	202.7	236.5	248.8	281.0
NP (KRWbn)	129.1	153.3	176.7	189.1	217.7
EPS (KRW)	1,734	2,023	2,291	2,452	2,823
Adj. EPS (KRW)	1,657	2,088	2,284	2,452	2,823
PER* (x)	20.8 - 12.9	19.4 - 11.2	17.6	14.5	12.6
PBR (x)	3.8	5.6	4.9	3.6	3.0
EV/EBITDA (x)	6.2	9.0	8.7	7.4	6.7
ROE (%)	22.9	24.0	24.4	23.0	23.1

Source: Company data, Hyundai Securities

YoY OR growth in cosmetics business in China seems to have dropped to 20% range

OR of the cosmetics business in China rose 25.1%YoY to CNY50mn and OP margin stood at 23% (down 13%pYoY) in 4Q10. The number of sales agencies increased 34%YoY, but OR growth slowed due to restructuring of less cost-efficient stores. The company targets 20%YoY growth in OR with a 25% OP margin in 2011. There will be restructuring of some brands and the cosmetics business in China will likely continue to step up sales and promotion efforts. Hence, despite a margin downtrend, the OP margin is unlikely to drop further from 25%, the level set as optimal by the company.

OP to rise about 7%YoY in 2011

Profit will likely regain momentum gradually in 2011 after bottoming out in 4Q10. Increases in net membership accounts are expected to improve top and bottom lines. Quarterly losses from the newly launched cosmetics business are also projected to diminish in 2H11. Meanwhile, the company estimates its 2011 OR at KRW1.7tr (up 12%) and OP at KRW244bn (up 7%) in line with our figures. IFRS-basis OP guidance is provided at KRW237.6bn (up 4%YoY) due to a slight increase in expenses. Although goodwill amortization expenses of KRW15.3bn would disappear with the introduction of IFRS, commission paid to the company's door-to-door sales agents ("Cody" ladies) previously booked for five years would be now booked across two years, entailing an increase of KRW21.7bn in commission expenses.

Share price likely to stage turnaround

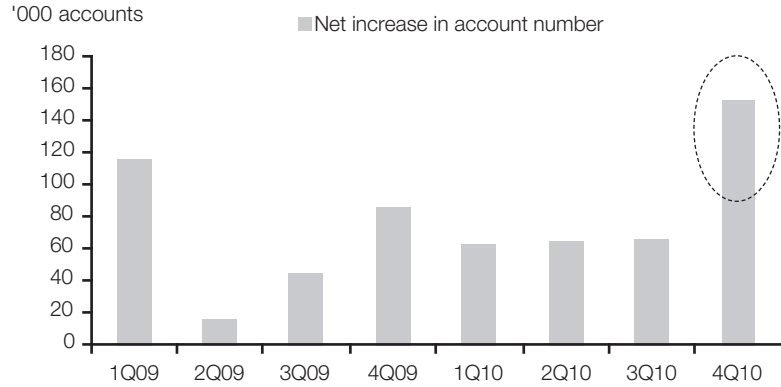
Woongjin Coway shares have underperformed the market recently by more than 20%. Weak earnings momentum is expected for 1H11, but 10%-range earnings growth is projected for 2H11. The share's 2011 PER is at 15x, which is near the lowest level of the past five years and looks excessively undervalued in light of the company's brisk earnings. Given the latest sharp pullback, investor expectations on the stock have been lowered. The share prices will likely stage a turnaround, however, if the newly launched cosmetics business remains brisk even after the positive effect of its membership program fades and if the company's plans to boost enterprise value produce visible results.

Fig 1: 4Q10 results came in line with consensus

(KRWbn)	4Q10P	%YoY	%QoQ	4Q09	3Q10	4Q10 est.		%Diff.	
						HRC	Consensus	HRC	Consensus
OR	403.2	8.6	6.7	371.4	378.0	404.9	402.3	(0.4)	0.2
OP	53.7	(5.9)	(5.9)	57.1	57.1	53.6	53.7	0.3	0.1
EBT	55.0	3.5	(7.7)	53.1	59.5	53.0	55.4	3.7	(0.8)
NP	42.7	5.7	(5.7)	40.3	45.2	40.3	42.1	5.8	1.3

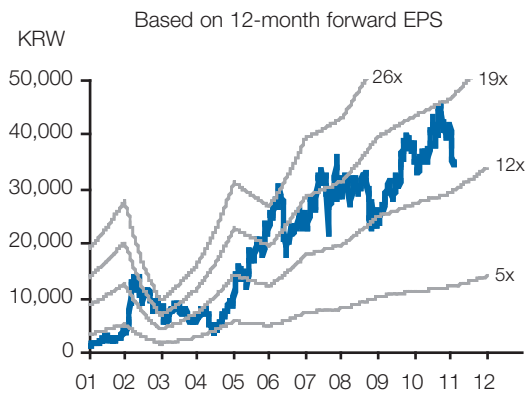
Source: Company data, FnGuide, Hyundai Securities

Fig 2: 4Q10 membership increase is the biggest-ever quarterly increase



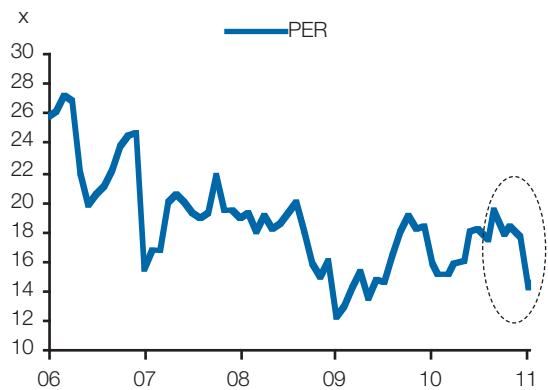
Source: Company data, Hyundai Securities

Fig 3: 2011 PER nears the lower end of PER band



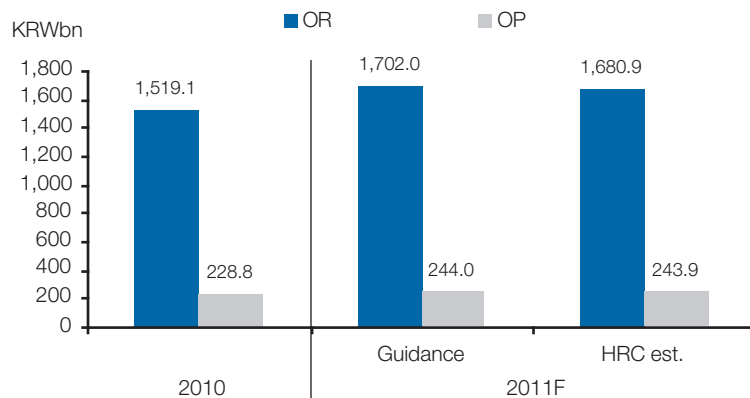
Source: Hyundai Securities

Fig 4: Current PER at the trough level of the past five years



Source: Hyundai Securities

Fig 5: 2011 OP guidance at 7%YoY growth



Source: Company data, Hyundai Securities

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Company: Strong BUY (+30% or more), BUY (+10 - +30%), Marketperform (-10 - +10%), Underperform (-10% or more)
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