

BUY (maintain)

Woongjin Coway (021240)

Concerns over Operations Dissipating

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Current price (Mar 15) KRW31,700
Fair value KRW56,000

Reuters code 021240.KS
Bloomberg code 021240 KS

Industry/Sector Other Consumer Services
Rating Overweight

Market cap USD2.2bn

Ordinary shares issued 77,124,796shrs

Free float 67.6%

KOSPI 1,923.92

KOSDAQ 489.44

Avg T/O Vol (60d) 340,178shrs

Avg T/O Val (60d) USD10.8mn

Foreign ownership 47.5%

3yr CAGR of adj. EPS (10-12) 11.8%

Market's 3yr CAGR of adj. EPS 46.5%

52wk high/low KRW45,850

KRW31,200

Beta (12M, daily return) 0.5

Major shareholders
WoongJin Holdings 31.1%

- Home environment appliance sales remain solid in 1Q11
- Cosmetics sales beat company guidance
- It is still unclear whether OP will recover in 1Q11
- Planned revisions to Door-to-Door Sales Act to affect domestic cosmetics business more or less
- Valuation multiple at a historical low

Home environment appliance sales remain solid in 1Q11

The home environment appliance business continued to post solid sales. In Jan-Feb, the number of net accounts (rental & lump-sum sales) seems to have increased about 80,000 from end-2010. Stronger-than-expected growth in net accounts (the company aims to increase them by 350,000 in 2011) is attributable to solid sales of air purifiers and water purifiers.

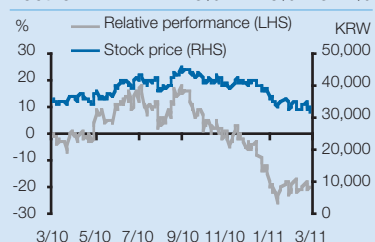
Cosmetics sales beat company guidance

Jan-Feb cosmetics sales at home and abroad seem to have surpassed the company's guidance. Domestic cosmetics sales already exceeded the 1Q11 target of KRW10bn. Cosmetics sales in China grew nearly 30%YoY, suggesting that the yearly growth rate guidance of 20%YoY may be surpassed. However, contributions to profits are unlikely to be large due to intensified marketing.

Profit recovery in 1Q11 still uncertain

Given continuously brisk rental business, commissions paid to Cody ladies (door-to-door sales reps) are expected to increase in the short term. Accordingly, the OP margin of home environment appliances, the flagship business, is expected to remain flat YoY. On the other hand, the domestic cosmetics business is expected to stay in the red due to aggressive marketing for a new product line (e.g., endorsement by a top celebrity). 1Q11 OP is expected to be slightly down YoY.

Price performance	1M	3M	6M
Absolute	-6.5%	-21.7%	-28.7%
Relative	-2.3%	-17.9%	-32.4%



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	252.5	290.2
NP (KRWbn)	129.1	153.3	176.7	191.9	224.9
EPS (KRW)	1,734	2,023	2,291	2,489	2,916
Adj. EPS (KRW)	1,657	2,088	2,284	2,489	2,916
PER* (x)	20.8 - 12.9	19.4 - 11.2	17.6	12.7	10.9
PBR (x)	3.8	5.6	4.9	3.2	2.6
EV/EBITDA (x)	6.2	9.0	8.7	6.6	5.9
ROE (%)	22.9	24.0	24.4	23.3	23.7

Source: Company data, Hyundai Securities

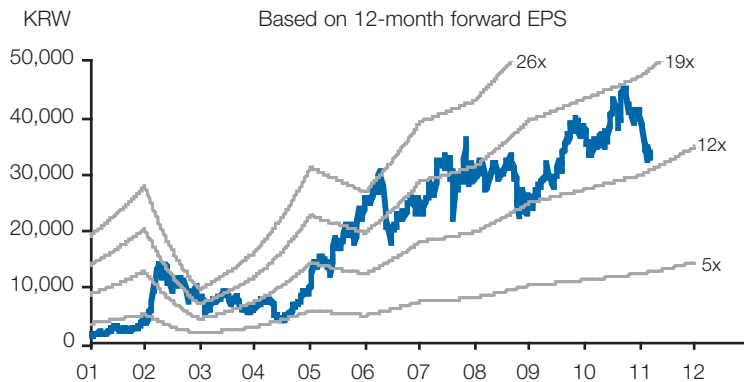
Revision to the Door-to-door Sales Act may affect cosmetics business slightly

The Korean government is pushing to revise the Door-to-door Sales Act, but it is being delayed longer than expected due to oppositions from door-to-door sales business operators, who are against new clauses that put a ceiling on commissions paid from sales agency to sales staff and require part of revenues to be paid to a mutual aid cooperative. Depending on how situations unfold, Woongjin Coway may also have to depend more on directly operated door-to-door sales business than on sales agency-based door-to-door sales business, which accounts for about 20% of the company's total door-to-door revenues.

PER at historical trough

Woongjin Coway's share prices remained bearish over the past six months due to lowered expectations on and weaker-than-expected earnings contribution from the company's cosmetics businesses at home and abroad. The shares trade at a 2011 PER of 13x, the lower end of its historical band. Adjusted EPS is projected to grow 10%YoY in 2011, however, on loss reductions in the domestic cosmetics business in 2H11. We advise keeping an eye on earnings momentum in 2H11.

Post-merger PER at an all-time low level



Source: Hyundai Securities

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- Rating: Sector: Overweight (+10% or more), Neutral (-10 - +10%), Underweight (-10% or more)
Company: Strong BUY (+30% or more), BUY (+10 - +30%), Marketperform (-10 - +10%), Underperform (-10% or more)
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