

Woongjin Coway (021240 KS)

SunKyung Lee _ (82-2) 3772-1568 sunny.lee@goodi.com

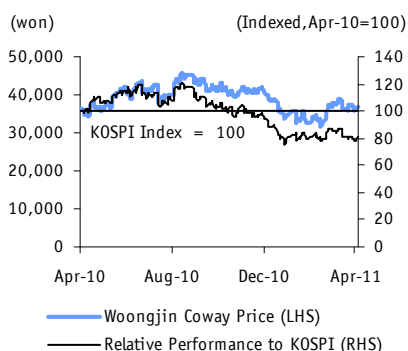
Accounting changes aside, 1Q11 results look better than expected

BUY

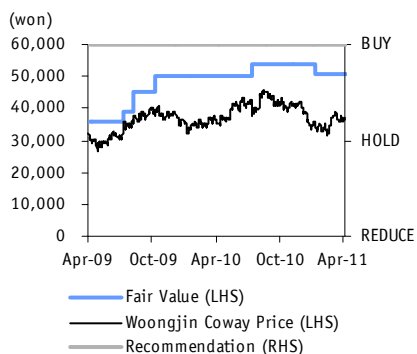
Price (May 3) W37,100
Target Price (% variance) W51,000 (37.5%)

Mkt Cap. W2,861.3bn/ US\$2,674.1mn
Average Daily Trading Value: W12,083mn
52 week High/Low W45,850/ W31,700

Share Price Performance



Fair Value & Recommendation History



- ◆ 1Q11 operating profit and pre-tax profit top our estimates before IFRS
- ◆ Net growth in rental and lump-sum payment accounts looks solid
- ◆ Cosmetics business at home and China is humming along
- ◆ BUY for a target price of W51,000

1Q11 operating profit and pre-tax profit top our estimates before IFRS

Woongjin Coway reported 1Q11 sales of W399.8bn (+9.4% YoY), operating profit of W57.1bn (-15.5% YoY) and net profit of W38.8bn (-24.7% YoY) for 1Q11 under IFRS. The operating profit and net profit drops are attributable to accounting changes under IFRS, which sharply adjust upward 1Q10 profits and exclude equity method gains from profit numbers. If the accounting changes are taken out, Woongjin's 1Q11 operating profit and net profit surpass our estimates.

Woongjin Coway 1Q11 results

(W bn)	1Q11P	1Q10	% YoY	4Q10	% QoQ	1Q11 K-GAAP	Var. (%)
Sales	399.8	365.4	9.4	398.8	0.2	405.0	(1.3)
COGS	125.4	123.6	1.5	123.9	1.2	124.3	0.9
Gross profit	274.4	241.7	13.5	275.0	(0.2)	280.7	(2.2)
SG&A	204.8	162.0	26.4	205.5	(0.3)	226.2	
Other operating income	3.8	1.5	153.3	2.0	90.0		
Other operating expense	16.3	13.8	18.1	17.6	(7.4)		
Rental disposal	12.0	9.4	27.6	10.8	11.1		
Others	4.3	4.4	(2.2)	6.8	(36.8)		
OP	57.1	67.4	(15.3)	53.9	5.9	54.5	4.8
Pre-tax profit	50.4	64.7	(22.0)	49.8	1.2	55.2	(8.6)
Equity method gains	0.0	0.0		0.0		5.3	
Net profit	38.8	51.5	(24.7)	36.6	5.8	41.8	(7.4)
OPM (%)	14.3	18.4		13.5		13.5	
Pre-tax margin (%)	12.6	17.7		12.5		13.6	
Net margin (%)	9.7	14.1		9.2		10.3	
OP (excluding forex-related gains)	57.6	70.3	(18.1)	58.7	(1.9)	54.5	5.7
OPM (%)	14.4	19.2		14.7		13.5	

Source: Company data, Shinhan Investment Corp.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net Debt Ratio (%)	Div. Yield (%)
2009	1,411.9	204.3	202.7	153.3	2,023	16.7	15.9	6.6	3.6	24.0	29.5	3.1
2010	1,519.1	228.8	236.5	177.0	2,296	13.4	17.0	7.6	3.9	24.5	34.5	2.7
2011E	1,644.3	233.6	233.4	176.6	2,290	(0.2)	16.2	7.4	3.6	22.8	36.6	2.9
2012E	1,758.4	262.9	273.6	206.6	2,679	17.0	13.8	6.7	3.1	24.3	23.7	3.3
2013E	1,864.9	282.7	304.0	230.1	2,984	11.4	12.4	6.3	2.7	23.4	12.9	3.7

Under IFRS, the revenue recognition periods for sales commissions and rental registration fees are reduced from 5-year contract periods to two-year contract obligation periods. "Other non-operating income" is added under operating income, while "forex-related gains" are added under operating expenses. Losses from rental disposal are other operating expenses under SG&A.

We had forecast an operating profit of W54.5bn (operating profit margin: 13.5%) for 1Q11 based on the change in the sales commission recognition period only. The 1Q11 operating profit with rental equipment impairment losses newly included in SG&A expenses came to W57.6bn (operating profit margin: 14.4%), surpassing our estimate by 5.7%. Equity method gains/losses are not included in stand-alone profits/losses under IFRS. Woongjin Chemical, 45.2% owned by Woongjin Coway, registered 1Q11 net profit of W11bn, and Woongjin Coway's Chinese subsidiary is estimated to have registered profits similar to the 1Q10 levels with the quarter's equity method gains estimated at W1.9bn. Despite losses at some overseas subsidiaries in the U.S. and Thailand, Woongjin's total equity method gains in 1Q11 are estimated to have exceeded our estimate of W5.3bn.

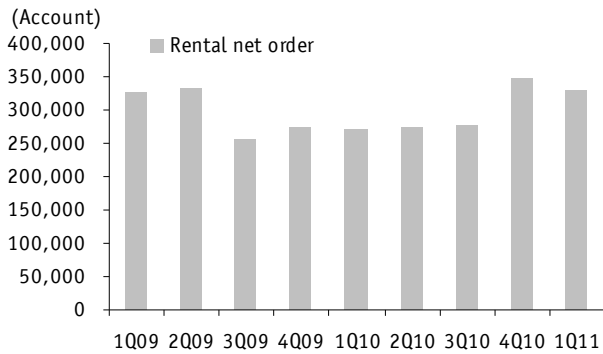
Woongjin Coway 1Q11 earnings by business division

(W bn)		IFRS 1Q11	K-GAAP 1Q10	IFRS 1Q10	% YoY	K-GAAP 4Q10	IFRS 4Q10	% QoQ
Sales	Total	399.7	371.3	365.3	9.4	403.3	398.9	0.2
	Rental	288.0	271.7	265.8	8.4	284.4	280.0	2.9
	Membership	39.1	35.6	35.6	9.8	38.0	38.0	2.9
	Lump-sum sales	31.8	26.7	26.7	19.1	31.4	31.4	1.3
	Cosmetics	17.4				21.6	21.6	(19.4)
	Exports	18.3	17.3	17.3	5.8	19.4	19.4	(5.7)
	Others	5.1	19.9	19.9	(74.4)	8.5	8.5	(40.0)
COGS	Total	125.4	124.1	123.6	1.5	124.6	123.9	1.2
	Rental	82.5	75.1	74.6	10.6	78.2	77.7	6.2
	Membership	12.5	11.1	11.1	12.6	11.6	11.6	7.8
	Lump-sum sales	10.2	7.7	7.7	32.5	11.0	11.0	(7.3)
	Cosmetics	2.9				2.4	2.6	11.5
	Exports	14.7	13.6	13.6	8.1	15.0	15.0	(2.0)
	Others	2.6	16.6	16.6	(84.3)	6.3	6.0	(56.7)
COGS ratio (%)	Total	31.4		33.8			31.1	
	Rental	28.6		28.1			27.8	
	Membership	32.0		31.2			30.5	
	Lump-sum sales	32.1		28.8			35.0	
	Cosmetics	16.7					12.0	
	Exports	80.3		78.6			77.3	
	Others	51.0		83.4			70.6	
Gross profit		274.3	247.2	241.7	13.5	278.7	275.0	(0.3)
Gross profit margin (%)		68.6	66.6	66.2		69.1	68.9	
SG&A		204.8	187.9	162.0	26.4	225.0	205.5	(0.3)
Other operating revenues		3.8		1.5	153.3		2.0	90.0
Other operating expenses		16.3		13.8	18.1		17.6	(7.4)
Rental equipment impairment losses		12.0		9.4		10.8		
SG&A/sales (%)		54.4	50.6	47.7		55.8	55.4	
OP		57.0	59.4	67.4	(15.4)	53.7	53.9	5.8
OPM (%)		14.3	16.0	18.5		13.3	13.5	

Source: Company data, Shinhan Investment Corp.

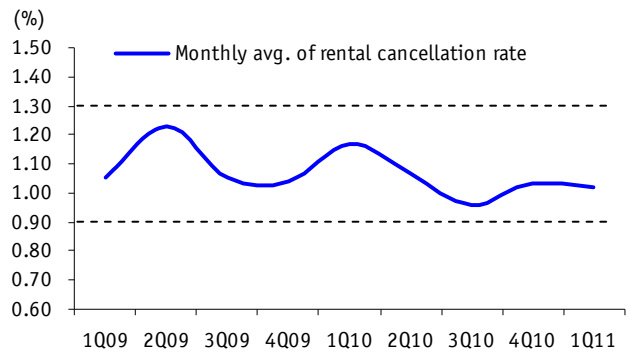
Net growth in rental and lump-sum payment accounts looks solid Rental customer accounts increased by 300,000 YoY in 1Q11 as rental sales rose 21% YoY to 330,000 accounts and cancellation rates declined by 0.16%p YoY to 1.01%. Total accounts grew 8.4% YoY to 5.2mn as membership accounts went up by 100,000 accounts. Lump-sum contracts jumped 20% YoY to 560,000 accounts. Taken together, the environmental electronics division's earnings momentum growth continued in 1Q11. .

1Q11 net rental order growth: 26%



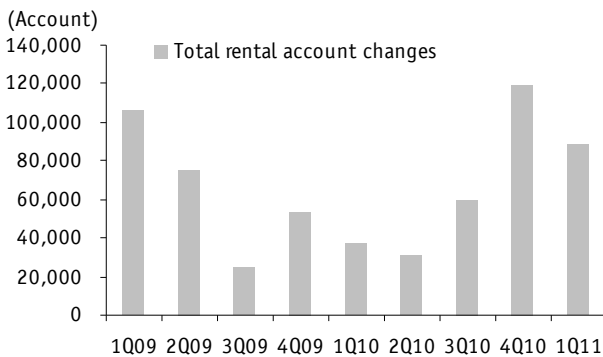
Source: Company data, Shinhan Investment Corp.

Monthly average cancellation rates



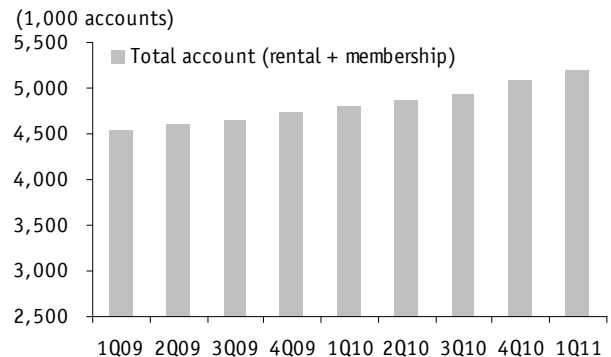
Source: Company data, Shinhan Investment Corp.

Rental accounts on a steady rise



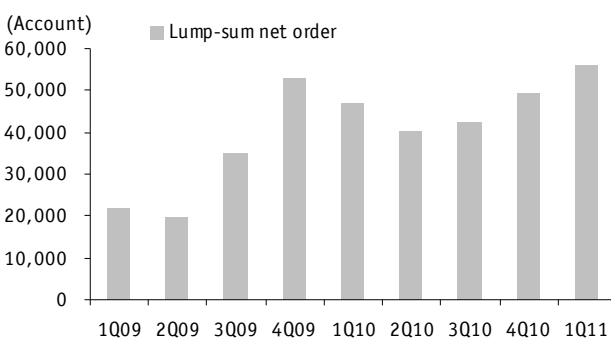
Source: Company data, Shinhan Investment Corp.

Growth in total accounts (rental + membership)



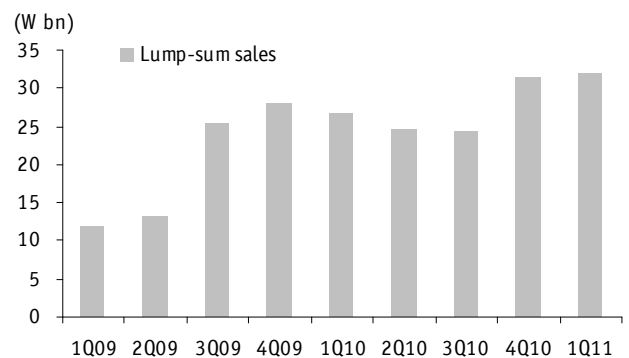
Source: Company data, Shinhan Investment Corp.

Quarterly net lump-sum contract order trend



Source: Company data, Shinhan Investment Corp.

Quarterly lump-sum account sales trend

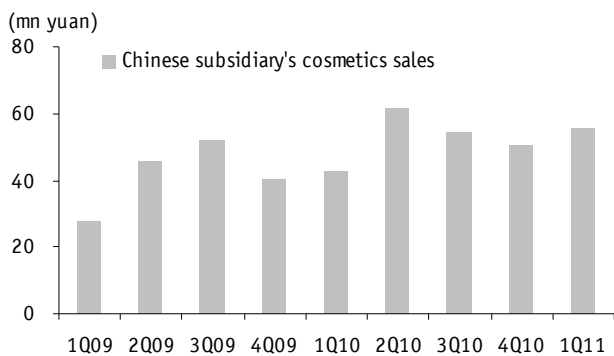


Source: Company data, Shinhan Investment Corp.

Cosmetics business is humming along Cosmetics sales from the Chinese operations climbed 30% YoY in yuan terms in 1Q11, and the operating profit margin was stronger than expected at 26%. Sales from the China unit totaled 70.36mn yuan, up 25% YoY, while operating profit shrunk 12% YoY to 13.04mn yuan due to losses on environmental electronics. Equity method gains from the China unit in 1Q11 are estimated at W1.9bn, similar to the year-ago level of W2bn.

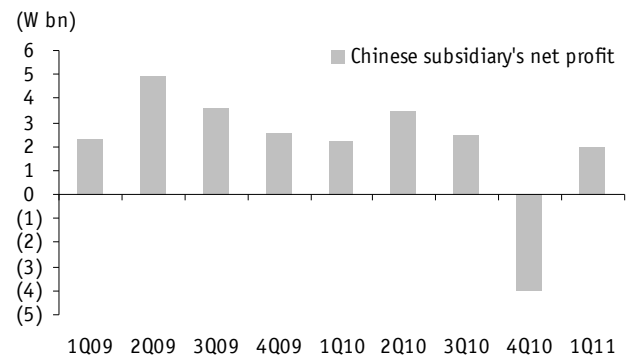
In 1Q11, Woongjin’s domestic cosmetics sales stood at W17.4bn with an operating loss of W5.3bn in line with expectations (full-year sales target W60bn, operating loss W14bn). Marketing campaigns based on the company’s CODY beauty consultant network are ramping up with sample distributions to existing customers. The company plans to increase brand advertising and marketing interface with consumers by adding retail sales channels including a store opened at Lotte Duty Free Shop (Seoul’s Sogong-dong) in April. Two more stores will open at department stores in 2H11.

Chinese subsidiary’s cosmetic sales trend



Source: Company data, Shinhan Investment Corp.

Chinese subsidiary’s quarterly net profit trend (cosmetics & environmental home appliances)



Source: Company data, Shinhan Investment Corp.

Retain BUY for a target price of W51,000 We retain our BUY rating on Woongjin Coway for a target price of W51,000. The implementation of IFRS has changed revenue recognition methods, effective January 2009. The end result is higher 2009 and 2010 earnings and lower 2011 earnings. The impact of the accounting shift will fade in 2H11. Solid sales and operating profit margin increases are expected in 2012. A buyback of 2mn shares is in progress, providing added share price support. The cosmetics division’s losses are projected to decline gradually. The stock looks like a good BUY from long-term perspectives.

Balance Sheet

Year to Dec. (W bn)	2009	2010	2011E	2012E	2013E
Total Assets	1,270.7	1,439.5	1,483.5	1,538.2	1,622.9
Current Assets	509.5	578.8	571.6	573.9	601.2
Cash & Cash Equivalents	63.7	56.3	42.6	28.7	43.3
St. Investment Assets	5.5	3.9	4.6	7.0	11.1
Accounts Receivable	194.6	207.3	220.7	236.1	250.4
Inventory	54.6	73.2	72.1	77.1	81.8
Others	191.1	238.1	231.5	225.1	214.7
Non-current Assets	761.2	860.7	911.9	964.2	1,021.7
Investment Assets	130.7	204.3	233.1	268.7	308.3
Tangible Assets	418.2	454.2	481.9	503.5	525.8
Intangible Assets	141.1	133.6	126.2	119.2	112.6
Total Liabilities	590.0	674.7	696.0	623.5	571.1
Current Liabilities	541.8	441.0	515.6	472.6	476.1
Accounts Payable	29.2	38.3	41.4	44.7	48.3
St. Debt	119.7	74.5	59.6	56.6	53.8
Current Portion of Lt. Debt	120.0	30.0	110.0	60.0	56.3
Others	272.8	298.2	304.7	311.4	317.8
Non-current Liabilities	48.2	233.8	180.4	150.9	95.1
Bonds	0.0	49.8	106.0	106.0	49.8
Lt. Debt	30.0	170.0	60.0	30.0	30.0
Others	18.2	14.0	14.4	14.8	15.3
Total Stockholders Equity	680.7	764.8	787.5	914.7	1,051.8
Paid-in Capital	40.7	40.7	40.7	40.7	40.7
Capital Surplus	141.9	140.0	140.0	140.0	140.0
Capital Adjustment	(31.5)	(43.0)	(117.0)	(117.0)	(117.0)
Other Accumulated Earnings	0.0	(2.7)	(2.7)	(2.7)	(2.7)
Retained Earnings	529.6	629.8	726.5	853.7	990.8
Total Debt	269.7	324.2	335.6	252.6	189.8
Net Debt(Cash)	200.5	264.0	288.3	217.0	135.4

Cash Flow

Year to Dec. (W bn)	2009	2010	2011E	2012E	2013E
Cash Flows from Operating	311.7	313.8	350.5	369.4	390.7
Net Profit	153.3	177.0	176.6	206.6	230.1
Depreciation	128.2	131.6	130.2	132.5	131.4
Amortization	19.9	22.2	7.4	7.0	6.6
Equity Method Loss(Gain)	(13.9)	(22.1)	(25.3)	(32.0)	(39.0)
Investment Asset Disp Loss(Gain)	1.1	0.0	0.0	0.0	0.0
Tangible Asset Disp Loss(Gain)	0.4	0.3	0.0	0.0	0.0
Changes in Working Capital	(48.9)	(70.6)	(14.9)	(22.0)	(18.4)
Others	71.6	75.4	76.4	77.3	79.9
Cash Flows from Investing	(276.1)	(296.4)	(225.7)	(225.2)	(226.1)
St. Investment Assets Dec.(Inc.)	(0.1)	(3.3)	(0.8)	(2.3)	(4.2)
Investment Securities Dec.(Inc.)	2.8	(64.7)	(3.0)	(3.0)	0.0
Tangible Assets Dec.(Inc.)	(204.1)	(211.9)	(212.0)	(209.8)	(211.9)
Others	(74.8)	(16.5)	(10.0)	(10.0)	(10.0)
Free Cash Flow	35.5	17.4	124.8	144.2	164.6
Cash Flows from Financing	(52.3)	(20.4)	(138.5)	(158.2)	(150.0)
St. Debt Inc.(Dec.)	(18.6)	(45.2)	(14.9)	(3.0)	(2.8)
Cur. Por. of Lt. Debt Inc.(Dec.)	0.0	(50.0)	80.0	(50.0)	(3.8)
Bonds Inc.(Dec.)	0.0	49.7	56.3	0.0	(56.3)
Lt. Debt Inc.(Dec.)	0.0	100.0	(110.0)	(30.0)	0.0
Share Capital Inc.(Dec.)	0.0	0.0	(74.0)	0.0	0.0
Dividend Paid	(64.8)	(76.8)	(79.9)	(79.5)	(93.0)
Others	31.0	1.9	4.1	4.3	5.8
Change in Cash	(12.4)	(7.4)	(13.7)	(13.9)	14.6
Beginning Cash	76.1	63.7	56.3	42.6	28.7
Ending Cash	63.7	56.3	42.6	28.7	43.3
Capex/ Sales (%)	14.5	13.9	12.9	11.9	11.4
Depreciation/ Sales (%)	9.1	8.7	7.9	7.5	7.0
Depreciation/ Capex (%)	62.8	62.1	61.4	63.1	62.0

Source: Company data, Shinhan Investment Corp. estimates

Profit and Loss

Year to Dec. (W bn)	2009	2010	2011E	2012E	2013E
Net Sales	1,411.9	1,519.1	1,644.3	1,758.4	1,864.9
Growth (%)	7.4	7.6	8.2	6.9	6.1
Export ratio (%)	4.0	4.0	4.6	4.9	4.9
Cost of Sales	460.2	494.1	506.8	545.0	581.9
Growth (%)	13.0	7.4	2.6	7.5	6.8
Gross Profit	951.8	1,025.1	1,137.4	1,213.5	1,283.0
Gross Margin(%)	67.4	67.5	69.2	69.0	68.8
SG&A Expenses	747.5	796.3	903.8	950.6	1,000.3
Growth (%)	4.2	6.5	13.5	5.2	5.2
Operating Profit	204.3	228.8	233.6	262.9	282.7
Growth (%)	7.4	12.0	2.1	12.6	7.5
Operating Margin(%)	14.5	15.1	14.2	15.0	15.2
Non-Operating Inc (Exp)	(1.5)	7.7	(0.2)	10.7	21.3
Interest Income	3.1	3.5	2.7	1.7	1.8
Interest Expenses	12.5	17.6	19.3	20.6	15.5
Net F/X	(5.2)	(0.4)	(2.2)	0.0	0.0
Net Asset Disposal	(1.5)	(0.3)	0.0	0.0	0.0
Net Equity Method	13.9	22.1	25.3	32.0	39.0
Net Other non-operating	0.7	0.4	(6.7)	(2.4)	(4.1)
Pre-tax Profit from Cont. Op	202.7	236.5	233.4	273.6	304.0
Income Taxes	49.4	59.5	56.7	66.5	73.9
Profit from Cont. Op	153.3	177.0	176.6	206.6	230.1
Profit from Discont. Op	0.0	0.0	0.0	0.0	0.0
Net Profit	153.3	177.0	176.6	206.6	230.1
Growth (%)	18.8	15.5	(0.2)	17.0	11.4
Net Margin(%)	10.9	11.7	10.7	11.8	12.3
EBITDA	400.7	430.9	425.3	458.2	479.0
Growth (%)	1.6	7.5	(1.3)	7.7	4.6
Dividend Payout (%)	50.1	45.2	45.0	45.0	45.0

Key Ratios

Year to Dec.	2009	2010	2011E	2012E	2013E
EPS (won)	2,023	2,296	2,290	2,679	2,984
Adj. EPS (won)	2,043	2,299	2,351	2,751	3,063
BPS (won)	8,826	9,916	10,211	11,859	13,638
DPS (won)	1,010	1,050	1,058	1,238	1,378
PER (x)	15.9	17.0	16.2	13.8	12.4
Adj. PER (x)	15.7	17.0	15.8	13.5	12.1
PBR (x)	3.6	3.9	3.6	3.1	2.7
PCR (x)	6.8	7.8	7.8	7.3	7.0
EV/ EBITDA (x)	6.6	7.6	7.4	6.7	6.3
PEG (x)	1.6	1.9	1.3	0.9	na
Dividend Yield (%)	3.1	2.7	2.9	3.3	3.7
Profitability					
Operating Margin (%)	14.5	15.1	14.2	15.0	15.2
EBITDA Margin (%)	28.4	28.4	25.9	26.1	25.7
Pre-tax Profit Margin(%)	14.4	15.6	14.2	15.6	16.3
Net Margin (%)	10.9	11.7	10.7	11.8	12.3
ROA (%)	13.1	13.1	12.1	13.7	14.6
ROE (%)	24.0	24.5	22.8	24.3	23.4
ROIC (%)	22.9	21.3	20.8	22.9	24.1
Stability					
Debt Ratio (%)	86.7	88.2	88.4	68.2	54.3
Net Debt Ratio (%)	29.5	34.5	36.6	23.7	12.9
Interest Coverage (x)	16.3	13.0	12.1	12.8	18.3
Activity					
Asset Turnover (x)	1.2	1.1	1.1	1.2	1.2
Receivables Turnover (x)	7.9	7.3	7.3	7.4	7.3
Inventory Turnover (x)	25.1	23.8	22.6	23.6	23.5
Payables Turnover (x)	44.5	45.0	41.3	40.9	40.1
Working Capital Turnover (x)	11.7	9.5	9.1	9.8	10.3

Source: Company data, Shinhan Investment Corp. estimates

SHIC Rating Classifications : BUY; Over +15%, HOLD; -15% to +15%, REDUCE; -15% or More

(As of 10 Feb. 2003)

Analyst Certification: The following analysts hereby certify that their views on the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Sunkyoung Lee, Shinhan Investment Corp. has issued ELW based on the company's asset and floated LP. As of the date of this report, Shinhan Investment Corp.'s holdings of shares of the company mentioned in this report do not exceed 1% of the outstanding shares of the company. As of the date of this report, Shinhan Investment Corp. had not participated as a lead manager or adviser during the past 1 year, in issuance of the securities of the company mentioned in this report. As of the date of this report, the covering analyst did not maintain any financial interest in the securities or debt instruments convertible into such shares of the company mentioned in this report. All opinions and estimates included in this report constitute our judgments as of the date of this report and are subject to changes without notice. This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. Clients should consider whether it is suitable for their particular circumstances before acting on any opinions and recommendations in this report. This report is distributed to our clients only, and any unauthorized use, duplication, or redistribution of this report is prohibited.