

BUY (maintain)

Woongjin Coway (021240)

Poised for Second Growth Spurt

SK Lee Analyst / Retail

82-2-2003-2915 sk.lee@hdsr.com

Yoonsun Tae RA

82-2-2003-2934 yoonsun.tae@hdsr.com

Current price (Jul 1) KRW38,200
Fair value KRW56,000

Reuters code 021240.KS
Bloomberg code 021240 KS

Industry/Sector Other Consumer Services
Rating Overweight

Market cap USD2.7bn

Ordinary shares issued 77,124,796shrs

Free float 65.0%

KOSPI 2,125.74

KOSDAQ 484.11

Avg T/O Vol (60d) 215,000shrs

Avg T/O Val (60d) USD7.4mn

Foreign ownership 49.6%

3yr CAGR of adj. EPS (10-12) 10.2%

Market's 3yr CAGR of adj. EPS NA

52wk high/low KRW45,850

KRW31,050

Beta (12M, daily return) 0.6

Major shareholders
WoongJin Holdings etc. 31.0%

- Share price momentum on the recovery
- Operations remain brisk
- Domestic and overseas cosmetics business faring well
- Earnings momentum to recover in 2H11

Share price momentum on the recovery

The shares are pulling out of trough. Investment merits have improved gradually, with sound fundamentals (strong growth in user accounts) and relatively sluggish share price movements. The shares are currently at an FY2011 PER of 16x, having moved out of the low end of the historical band. Given the likelihood of recovery in earnings momentum in 2Q11, it is still a good time to buy.

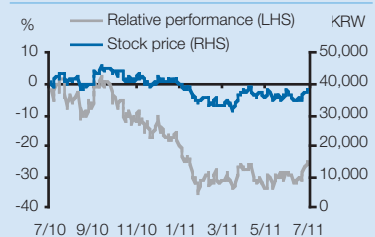
Operations remain brisk

Wellness home appliances and cosmetics businesses are faring well in 2Q11. Net additions in user accounts (for water purifiers, etc.) are as brisk as in 1Q11 (118,000) thanks to successful marketing activities targeting existing customers and the effects of new product launches. The company seems poised for a second growth spurt, with net addition of 100,000 accounts expected per quarter in 2H11. If all goes well as hoped for, earnings will improve further in 2012.

Domestic and overseas cosmetics business faring well

2Q11 domestic cosmetics sales appear to have remained flat QoQ (KRW17.4bn in 1Q11) despite the end of promotions. Ad spending has been larger than expected, but annual operating losses will not much exceed the company's guidance (KRW14bn). With store openings in four department stores scheduled for 2H11, brand awareness will improve further. OR at the wholly-owned subsidiary in China also appears to have grown 10-20%YoY in 2Q11. The high base of 2Q10 is a burden, but brisk sales of a new product are leading overall growth.

Price performance	1M	3M	6M
Absolute	2.0%	0.8%	-5.2%
Relative	2.8%	0.6%	-8.5%



FY-end	12/08A	12/09A	12/10A	12/11F	12/12F
OR (KRWbn)	1,314.4	1,411.9	1,519.1	1,685.1	1,872.2
OP (KRWbn)	190.1	204.3	228.8	243.7	273.2
EBT (KRWbn)	184.8	202.7	236.5	245.0	285.4
NP (KRWbn)	129.1	153.3	177.0	183.2	215.4
EPS (KRW)	1,734	2,023	2,296	2,375	2,793
Adj. EPS (KRW)	1,657	2,088	2,302	2,375	2,793
PER* (x)	20.8 - 12.9	19.4 - 11.2	19.9 - 13.9	16.1	13.7
PBR (x)	3.8	5.6	4.9	3.9	3.2
EV/EBITDA (x)	6.2	9.0	8.8	7.8	7.2
ROE (%)	22.9	24.0	24.5	22.4	23.0

Source: Company data, Hyundai Securities

Earnings momentum to recover in 2H11

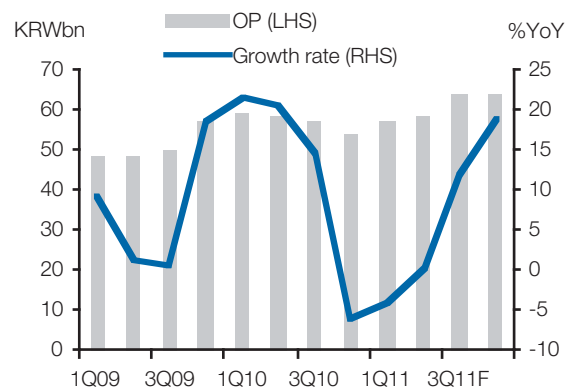
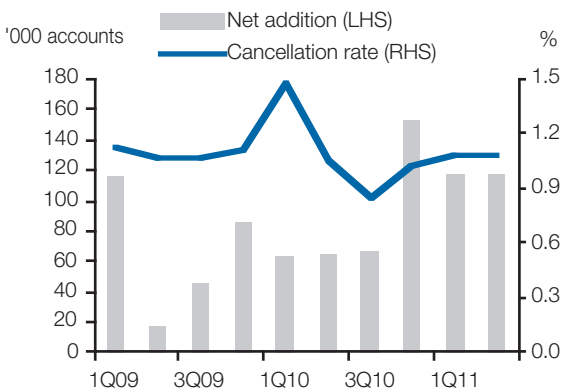
OP is expected to continue declining YoY in 2Q11 due to heavy sales commissions following the changed accounting standards and losses in the domestic cosmetics business. However, OP is expected to grow 15% on average in 2H11 as expected since the burden of sales commission in the wellness home appliance business will ease and losses in the domestic cosmetics business is forecast to dwindle. A key point to check for the short term is additional momentum that may come from a new food waste processor model to be launched in Jul.

Fig 1: Currently trading at the low-end of PER band



Source: Hyundai Securities

Fig 2: Sales of water purifiers and other appliances rise in 2Q11 **Fig 3: Profit momentum to rebound in 2H11**



Source: Company data, 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)
Strong BUY = 4, BUY = 3, Marketperform = 2, Underperform = 1, Blackout/Universe Exclusion = 0 (Share price —, Fair value ▲, Rating —)
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