

Woongjin Coway (021240 KS)

Sunkyung Lee _ (82-2) 3772-1568 sunny.lee@shinhan.com

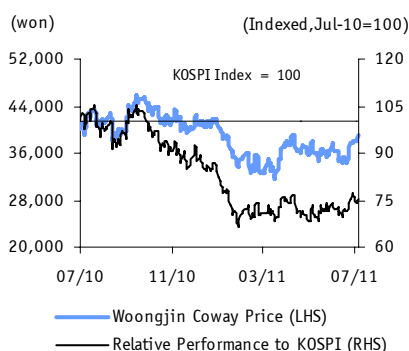
Waking up

BUY

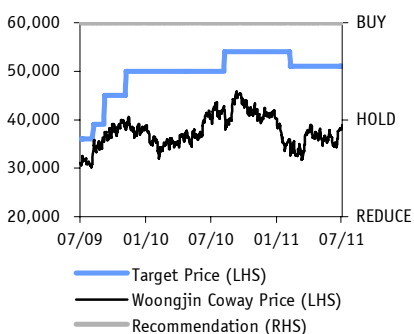
Price (Jul. 5) W38,900
Target Price (% variance) W51,000 (31.1%)

Mkt Cap. W3,000.2bn/ US\$2,830.3mn
Average Daily Trading Value: W7,608mn
52 week High/Low W45,850/ W31,700

Share Price Performance



Target Price & Recommendation History



- Moderate 2Q11 earnings with sales growing at a double-digit pace
- The rental business to grow 8% YoY despite a high base of comparison
- The company's domestic and overseas cosmetics businesses flourish, with domestic sales expected to beat our estimates
- BUY rating on Woongjin Coway for a target price of W51,000

Moderate 2Q11 earnings with sales growing at a double-digit pace

Woongjin Coway's K-GAAP-based operating profit is estimated to have declined 2% YoY to W57.5bn on sales of W404.5bn (+10.3% YoY) with an operating profit margin of 14.2% in 2Q11. Its sales are likely to have increased at a double-digit pace for the first time since 2Q07 on strong rental and lump-sum contract sales growth and the addition of the cosmetics business.

Despite solid sales increase, its operating profit is projected to have decreased due to a reduction in the recognition period of commissions under the IFRS and the cosmetics division's loss. However, the rental division's operating profit margin would have exceeded 15% without the accounting standard change. The cosmetics business is expected to turn positive in late 4Q11.

Woongjin Coway's quarterly earnings trends and estimates

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11F	3Q11F	4Q11F
Rental account	3,936	3,966	4,026	4,145	4,234	4,336	4,423	4,518
% YoY	5.1	3.8	4.7	6.3	7.6	9.3	9.9	9.0
Membership account	864	897	904	938	967	985	1,001	1,016
% YoY	7.6	13.3	12.2	11.9	12.0	9.7	10.7	8.4
Total account	4,799	4,864	4,930	5,083	5,201	5,320	5,424	5,534
% YoY	5.5	5.5	6.0	7.3	8.4	9.4	10.0	8.9
Sales	371,292	366,619	378,006	403,262	399,786	404,516	413,779	431,351
% YoY	8.8	6.6	6.4	8.6	7.7	10.3	9.5	7.0
Gross profit	247,224	245,825	253,291	278,767	274,350	277,368	285,256	295,927
% YoY	7.9	6.2	4.7	11.9	11.0	12.8	12.6	6.2
OP	59,373	58,634	57,068	53,767	58,464	57,470	61,232	66,017
% YoY	21.7	20.7	14.6	(5.9)	(1.5)	(2.0)	7.3	22.8
Gross profit margin	66.6	67.1	67.0	69.1	68.6	68.6	68.9	68.6
OPM	16.0	16.0	15.1	13.3	14.6	14.2	14.8	15.3

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
2011F	1,649.4	231.9	237.9	179.8	2,331	1.6	16.7	7.7	3.8	23.1	33.9	2.8
2012F	1,778.3	269.1	281.0	213.0	2,762	18.4	14.1	6.8	3.3	24.9	19.6	3.3
2013F	1,872.4	285.8	308.0	233.5	3,027	9.6	12.8	6.4	2.8	23.5	7.4	3.6

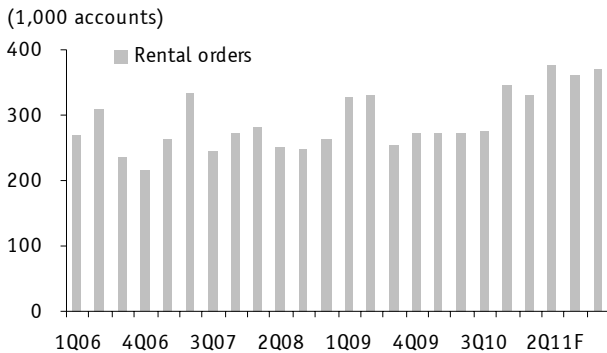
The rental business to grow 8% YoY despite a high base of comparison

Woongjin Coway’s rental net orders increased more than 20% during the first five months of this year and the cancellation rate remained at the early 1% range. The company’s rental accounts are estimated to have grown by over 200,000 QoQ as of May.

Despite a high base of comparison (current rental accounts: 4.23mn), Woongjin Coway’s rental sales are expected to rise more than 8% YoY even without the addition of new products. The improvement is attributable to an increase in rental accounts with the obligatory use period of two years.

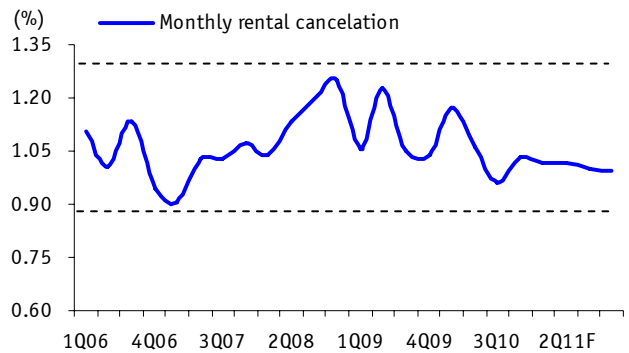
Meanwhile, lump-sum payment account sales grew 13% YoY on strong sales of water purifiers, air purifiers, massagers and other products.

Rental orders trends



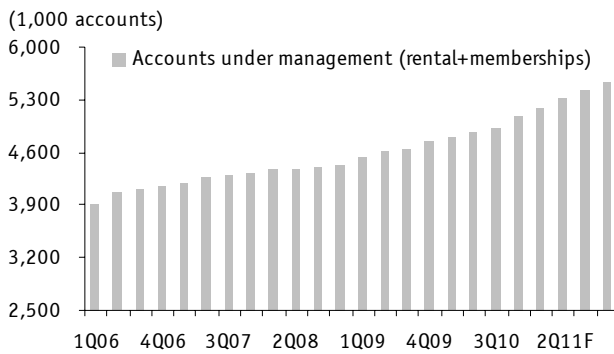
Source: Company data, Shinhan Investment Corp.

Rental cancelation trends



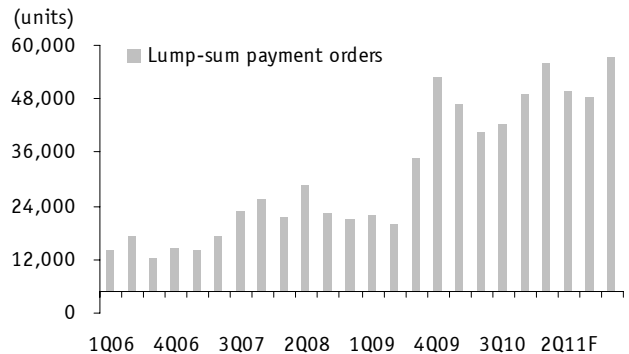
Source: Company data, Shinhan Investment Corp.

Total accounts under management trends



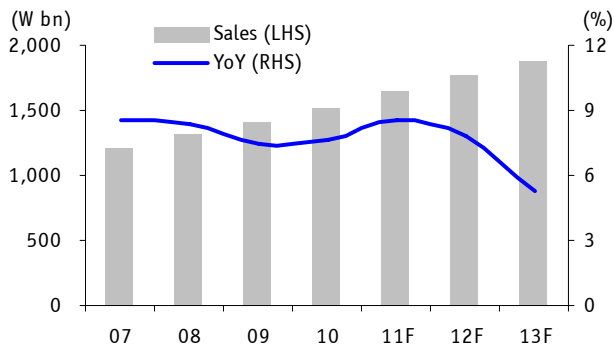
Source: Company data, Shinhan Investment Corp.

Lump-sum payment account orders trends



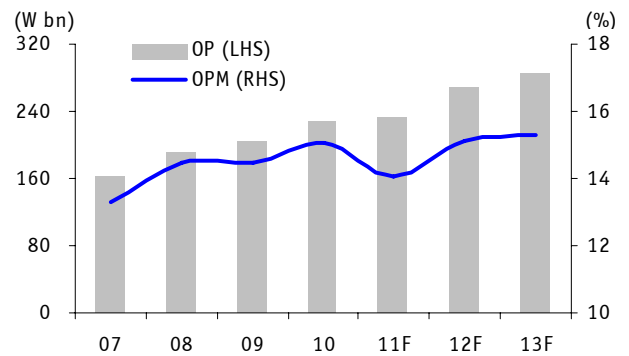
Source: Company data, Shinhan Investment Corp.

Sales trends



Source: Company data, Shinhan Investment Corp.

Operating profit trends



Source: Company data, Shinhan Investment Corp.

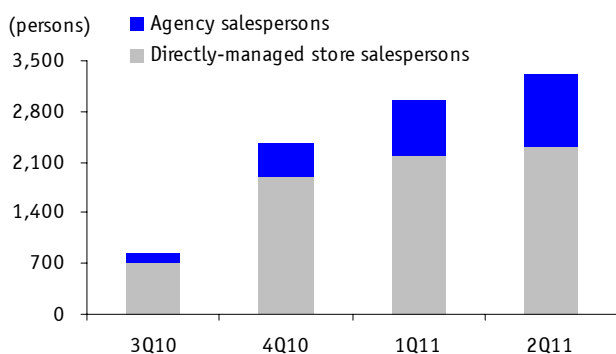
Rental business to grow over 8% YoY despite a high comparison base

Domestic cosmetic sales are expected to easily meet our estimate of W16bn in 2Q11. The strong sales growth in 4Q10 and 1Q11 was achieved through massive promotions, whereas the strong sales growth in 2Q11 was recorded without support from sales promotions.

In March, the company launched a whitening line, a men's Homme line and a mid and low end organic agricultural brand Fromm. In 2H11, the company will add an oriental medicine line. The increase in brand recognition and sales personnel and the addition of product line-ups are expected to allow the company's domestic cosmetic sales for 2011 to exceed the company's target of W60bn and our estimate of W71.4bn.

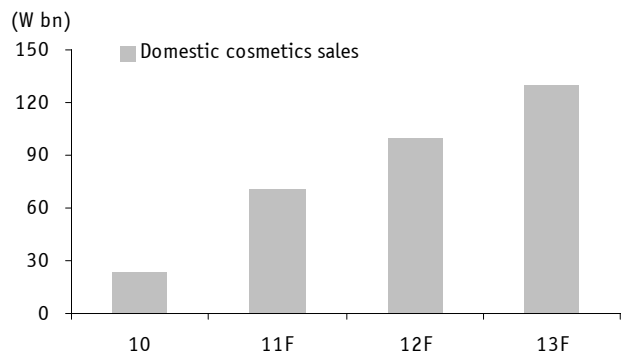
The Chinese subsidiary is also expected to post decent earnings in 2Q11 with sales up 20% and an operating profit margin of 25%. Domestic and overseas cosmetics businesses seem to be in smooth sail.

Woongjin Coway's no. of cosmetics salespersons



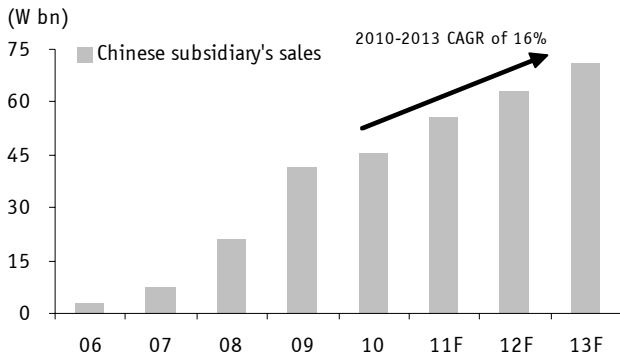
Source: Company data, Shinhan Investment Corp.

Domestic cosmetics sales trend & forecasts



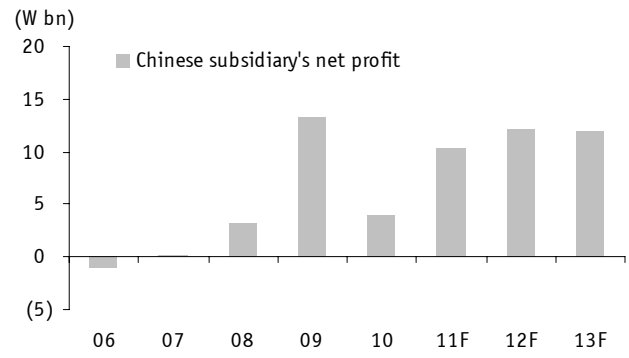
Source: Company data, Shinhan Investment Corp.

Chinese subsidiary' sales trend & forecasts



Source: Company data, Shinhan Investment Corp.

Chinese subsidiary' net profit trend & forecasts



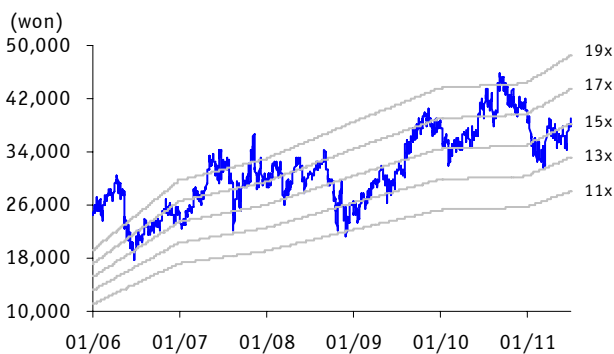
Source: Company data, Shinhan Investment Corp.

Retain BUY for a target price of W51,000

A major rival Chungho Nais is expected to be negatively impacted by service personnel's illegal sales practice and the CEO's embezzlement charges. Woongjin Coway will continue to rollout new products with upgraded functions and enjoy strong rental sales growth in 2H11. The cosmetics division's losses are projected to decline quickly on sales growth and shrinking ad spending.

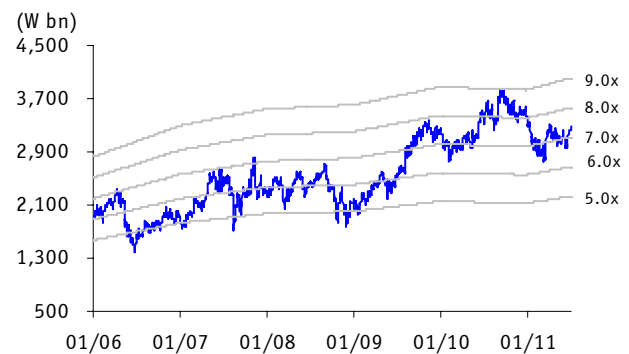
We retain our BUY rating on Woongjin Coway for a target price of W51,000. The company's share price remains weak despite decent sales growth and margin gains. The stock now deserves attention in view of stable earnings and high dividend payout, amid rising domestic and overseas equity market uncertainties.

Woongjin Coway's 12-month PER band



Source: Company data, Shinhan Investment Corp.

Woongjin Coway's 12-month forward EV/EBITDA band



Source: Company data, Shinhan Investment Corp.

Woongjin Coway's earnings forecast revision

(W bn)	Before revision			After revision			Change		
	2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Sales	1,644.3	1,758.4	1,864.9	1,649.4	1,778.3	1,872.4	0.3	1.1	0.4
OP	233.6	262.9	282.7	231.9	269.1	285.8	(0.7)	2.4	1.1
NP	176.6	206.6	230.1	179.8	213.0	233.5	1.8	3.1	1.5
OPM (%)	14.2	15.0	15.2	14.1	15.1	15.3			
NPM (%)	10.7	11.7	12.3	10.9	12.0	12.5			

Source: Shinhan Investment Corp.

Balance Sheet

Year to Dec. (W bn)	2009	2010	2011F	2012F	2013F
Total Assets	1,270.7	1,439.5	1,486.6	1,545.9	1,631.3
Current Assets	509.5	578.8	592.7	614.0	659.3
Cash & Cash Equivalents	63.7	56.3	62.8	65.2	100.1
St. Investment Assets	5.5	3.9	4.6	7.0	11.1
Accounts Receivable	194.6	207.3	221.4	238.7	251.4
Inventory	54.6	73.2	72.3	78.0	82.1
Others	191.1	238.1	231.5	225.1	214.7
Non-current Assets	761.2	860.7	893.8	931.8	972.0
Investment Assets	130.7	204.3	234.2	269.8	307.5
Tangible Assets	418.2	454.2	463.1	471.3	478.7
Intangible Assets	141.1	133.6	125.8	117.9	110.8
Total Liabilities	590.0	674.7	695.9	623.1	571.0
Current Liabilities	541.8	441.0	515.5	472.3	475.9
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	304.5	311.0	317.6
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	790.7	922.7	1,060.4
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	729.7	861.7	999.4
Total Debt	269.7	324.2	335.6	252.6	189.8
Net Debt(Cash)	200.5	264.0	268.2	180.4	78.6

Cash Flow

Year to Dec. (W bn)	2009	2010	2011F	2012F	2013F
Cash Flows from Operating	311.7	313.8	353.4	371.6	397.0
Net Profit	153.3	177.0	179.8	213.0	233.5
Depreciation	128.2	131.6	130.0	128.0	127.5
Amortization	19.9	22.2	7.9	7.9	7.1
Equity Method Loss(Gain)	(13.9)	(22.1)	(26.4)	(32.0)	(37.0)
Investment Asset Disp Loss(Gain)	1.1	0.0	0.0	0.0	0.0
Tangible Asset Disp Loss(Gain)	0.4	0.3	0.1	0.0	0.0
Changes in Working Capital	(48.9)	(70.6)	(15.8)	(24.6)	(16.2)
Others	71.6	75.4	77.9	79.4	82.1
Cash Flows from Investing	(276.1)	(296.4)	(214.7)	(213.8)	(214.4)
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)	(201.0)	(198.5)	(200.3)
Others	(74.8)	(16.5)	(10.0)	(10.0)	(10.0)
Free Cash Flow	35.5	17.4	138.7	157.7	182.6
Cash Flows from Financing	(52.3)	(20.4)	(132.2)	(155.3)	(147.7)
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)	(80.9)	(95.8)
Others	31.0	1.9	10.4	8.6	10.9
Change in Cash	(12.4)	(7.4)	6.5	2.4	34.8
Beginning Cash	76.1	63.7	56.3	62.8	65.2
Ending Cash	63.7	56.3	62.8	65.2	100.1
Capex/ Sales (%)	14.5	13.9	12.2	11.2	10.7
Depreciation/ Sales (%)	9.1	8.7	7.9	7.2	6.8
Depreciation/ Capex (%)	62.8	62.1	64.7	64.5	63.7

Source: Company data, Shinhan Investment Corp.

Profit and Loss

Year to Dec. (W bn)	2009	2010	2011F	2012F	2013F
Net Sales	1,411.9	1,519.1	1,649.4	1,778.3	1,872.4
Growth (%)	7.4	7.6	8.6	7.8	5.3
Export ratio (%)	4.0	4.0	4.6	4.9	4.9
Cost of Sales	460.2	494.1	516.7	554.5	587.0
Growth (%)	13.0	7.4	4.6	7.3	5.9
Gross Profit	951.8	1,025.1	1,132.7	1,223.8	1,285.4
Gross Margin (%)	67.4	67.5	68.7	68.8	68.6
SG&A Expenses	747.5	796.3	900.8	954.7	999.5
Growth (%)	4.2	6.5	13.1	6.0	4.7
Operating Profit	204.3	228.8	231.9	269.1	285.8
Growth (%)	7.4	12.0	1.4	16.0	6.2
Operating Margin (%)	14.5	15.1	14.1	15.1	15.3
Non-Operating Inc (Exp)	(1.5)	7.7	6.0	11.8	22.2
Interest Income	3.1	3.5	3.7	2.8	3.6
Interest Expenses	12.5	17.6	15.4	20.6	15.5
Net F/X	(5.2)	(0.4)	(1.7)	0.0	0.0
Net Asset Disposal	(1.5)	(0.3)	(0.1)	0.0	0.0
Net Equity Method	13.9	22.1	26.4	32.0	37.0
Net Other non-operating	0.7	0.4	(7.0)	(2.3)	(3.0)
Pre-tax Profit from Cont. Op	202.7	236.5	237.9	281.0	308.0
Income Taxes	49.4	59.5	58.1	68.6	75.2
Profit from Cont. Op	153.3	177.0	179.8	213.0	233.5
Profit from Discont. Op	0.0	0.0	0.0	0.0	0.0
Net Profit	153.3	177.0	179.8	213.0	233.5
Growth (%)	18.8	15.5	1.6	18.4	9.6
Net Margin (%)	10.9	11.7	10.9	12.0	12.5
EBITDA	400.7	430.9	425.8	464.8	481.1
Growth (%)	1.6	7.5	(1.2)	9.1	3.5
Dividend Payout (%)	50.1	45.2	45.0	45.0	45.0

Key Ratios

Year to Dec.	2009	2010	2011F	2012F	2013F
EPS (won)	2,023	2,296	2,331	2,762	3,027
Adj. EPS (won)	2,043	2,299	2,394	2,835	3,108
BPS (won)	8,826	9,916	10,252	11,964	13,749
DPS (won)	1,010	1,050	1,077	1,276	1,399
PER (x)	15.9	17.0	16.7	14.1	12.8
Adj. PER (x)	15.7	17.0	16.2	13.7	12.5
PBR (x)	3.6	3.9	3.8	3.3	2.8
PCR (x)	6.8	7.8	8.1	7.6	7.3
EV/ EBITDA (x)	6.6	7.6	7.7	6.8	6.4
PEG (x)	1.5	1.8	1.4	0.9	na
Dividend Yield (%)	3.1	2.7	2.8	3.3	3.6
Profitability					
Operating Margin (%)	14.5	15.1	14.1	15.1	15.3
EBITDA Margin (%)	28.4	28.4	25.8	26.1	25.7
Pre-tax Profit Margin (%)	14.4	15.6	14.4	15.8	16.5
Net Margin (%)	10.9	11.7	10.9	12.0	12.5
ROA (%)	13.1	13.1	12.3	14.0	14.7
ROE (%)	24.0	24.5	23.1	24.9	23.5
ROIC (%)	23.0	21.5	21.0	24.2	25.6
Stability					
Debt Ratio (%)	86.7	88.2	88.0	67.5	53.8
Net Debt Ratio (%)	29.5	34.5	33.9	19.6	7.4
Interest Coverage (x)	16.3	13.0	15.0	13.1	18.5
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	22.7	23.7	23.4
Payables Turnover (x)	44.5	45.0	41.4	41.3	40.3
Working Capital Turnover (x)	11.7	9.5	9.1	9.7	10.2

Source: Company data, Shinhan Investment Corp.

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

(As of 10 Feb. 2003)

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