

Company Update



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■ AT A GLANCE

SELL HOLD **BUY**

| | | | |
|--------------------------------------|-------------------------|-----|-----|
| Target price | KRW46,000 (+17%) | | |
| Current price | KRW39,290 | | |
| Bloomberg code | 021240 KS | | |
| Market cap | KRW2.9t/USD2.8b | | |
| Shares (float) | 77,124,796 (39.2%) | | |
| 52-week high/low | KRW45,850/KRW31,700 | | |
| Average daily trading value (60-day) | KRW5.87b/USD5.59m | | |
| One-year performance | 1M | 6M | 12M |
| Woongjin Coway (%) | +1 | +11 | -6 |
| Vs Kospi (%pts) | +5 | +8 | -22 |

■ KEY CHANGES

| (KRW) | New | Old | Diff |
|----------------|--------|--------|-------|
| Recommendation | BUY | BUY | |
| Target price | 46,000 | 46,000 | 0.0% |
| 2011E EPS | 2,446 | 2,453 | -0.3% |
| 2012E EPS | 2,979 | 2,874 | +3.7% |
| 2013E EPS | 3,352 | 3,314 | +1.1% |

■ SUMMARY OF 2Q RESULTS

| (KRWb) | 2Q11 | Chg | | Diff (%) | |
|--------------------|-------|---------|---------|----------|-----------|
| | | (% y-y) | (% q-q) | Samsung | Consensus |
| Sales | 435.9 | 19.3 | 9.0 | 2.9 | 6.6 |
| Operating profit | 61.8 | (13.3) | 9.4 | 4.2 | 7.3 |
| Pre-tax profit | 55.1 | (27.5) | 9.2 | (4.9) | (7.4) |
| Net profit | 42.1 | (28.9) | 8.5 | 1.6 | (7.6) |
| Margins (%) | | | | | |
| Operating profit | 14.2 | | | | |
| Pre-tax profit | 12.6 | | | | |
| Net profit | 9.7 | | | | |

Source: Company data, Samsung Securities estimates

Woongjin Coway (021240 KS)

Rental business keeps ramping up

WHAT'S THE STORY?

Event: Woongjin Coway today announced solid 2Q results, with the rental business enjoying renewed growth as net account additions hit 131,000, exceeding 100,000 for a third consecutive quarter.

Impact: Robust growth in net account additions since 4Q10 should result in solid earnings momentum in 2H.

Action: We maintain BUY on the stock with a target price of KRW46,000 despite concern over net debt, which we expect to decline in 2H.

THE QUICK VIEW

Rental business going strong: Woongjin Coway today reported its 2Q K-IFRS parent-based sales grew 19% y-y to KRW435.9b, while its operating margin declined 5.1pts y-y to 14.1%, due to: 1) KRW5.1b in costs related to its domestic cosmetics business; and 2) IFRS-related accounting changes. Rental sales, having grown 3-4% pa since 2008, jumped 10% y-y in 2Q on solid water purifier and air cleaner sales volume. Net account additions hit 131,000—topping 100,000 for a third quarter—as the firm's churn rate fell to 0.98% and products-per-customer rose to 1.58 units. This brought the 1H total to 250,000—more than 70% of the firm's 2011 target. We believe net account additions for 2011 will reach 450,000, a post-2006 high.

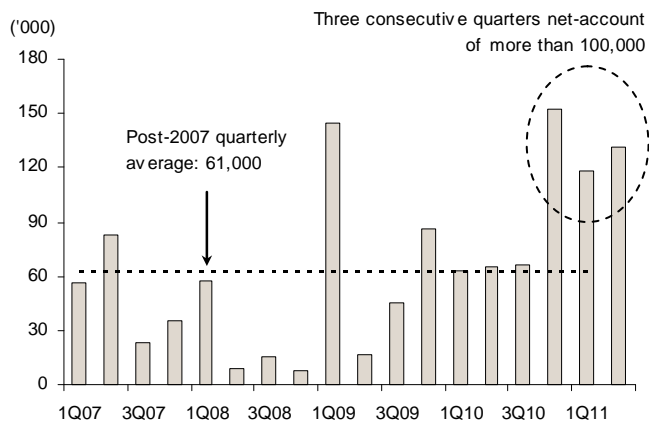
Cosmetics business doing well: Woongjin Coway's domestic cosmetics business posted a KRW5.1b operating loss for 2Q on sales of KRW17.9b. Sales for 1H came to KRW35.5b, 60% of the firm's 2011 target of KRW60b. We expect full-year sales to reach KRW70b on launches of new brands FROMN in July and Ol-bit in August. In China, base effect limited y-y growth in cosmetics sales to 7%, bringing the 1H total to half the firm's 2011 guidance. Base effect was also to blame for a 19% y-y decline in operating profit for 1H, but should lead to 8% y-y profit growth in 2H. We believe Woongjin Coway will meet its 2011 targets of 20% sales growth and a 25% margin.

Maintaining BUY: Woongjin Coway's net debt rose to KRW435b at end-2Q11, up 63% from end-2010, on: 1) KRW79.9b in dividends and a KRW73.4b share buyback in 2Q11; 2) a rise in commissions paid to cosmetics sales agents; and 3) sharp growth in rental accounts. The increase in concerning, but cash from rental operations should lead to a decline in 2H. We maintain BUY on Woongjin Coway with a 12-month target price of KRW46,000, as the firm is trading at an attractive 14x 12-month forward P/E, and should see earnings momentum build in 2H as: 1) surging net account additions boost operating profit in earnest from 3Q; 2) the domestic cosmetics turns from a 1H operating loss of KRW10.3b to a KRW5b loss in 2H, as spending was concentrated in 1H; and 3) base effect kicks in—the domestic cosmetics business was launched and the Chinese subsidiary suffered a slowdown in 2H10.

■ VALUATION SUMMARY

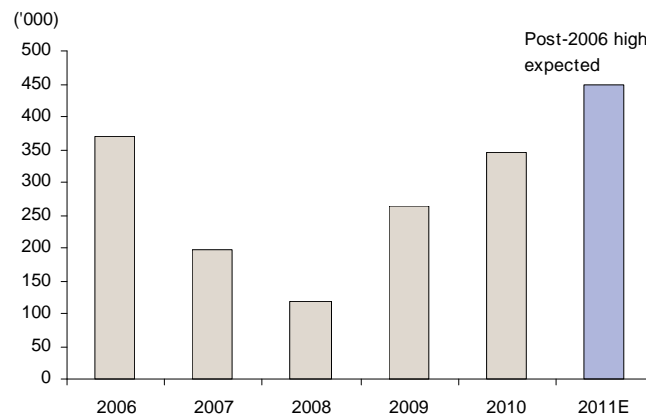
| | 2010 | 2011E | 2012E |
|-----------------------------|-------|-------|--------|
| Multiples (x) | | | |
| P/E | 17.1 | 16.0 | 13.2 |
| P/B | 4.8 | 4.0 | 3.2 |
| EV/EBITDA | 8.6 | 8.1 | 7.1 |
| Div yield (%) | 2.7 | 2.8 | 2.9 |
| EPS growth (%) | 13.4 | 6.6 | 21.8 |
| ROE (%) | 24.6 | 23.0 | 24.3 |
| Per share data (KRW) | | | |
| EPS | 2,296 | 2,446 | 2,979 |
| BVPS | 8,184 | 9,896 | 12,107 |
| DPS | 1,050 | 1,130 | 1,170 |

Chart 1. Quarterly net account additions trend



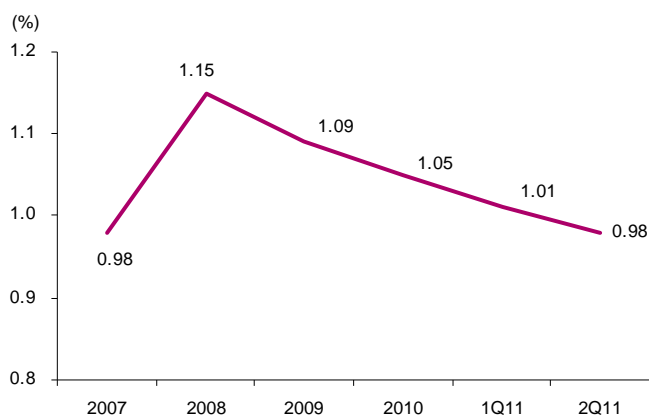
Source: Company data, Samsung Securities

Chart 2. Yearly net account additions trend and forecasts



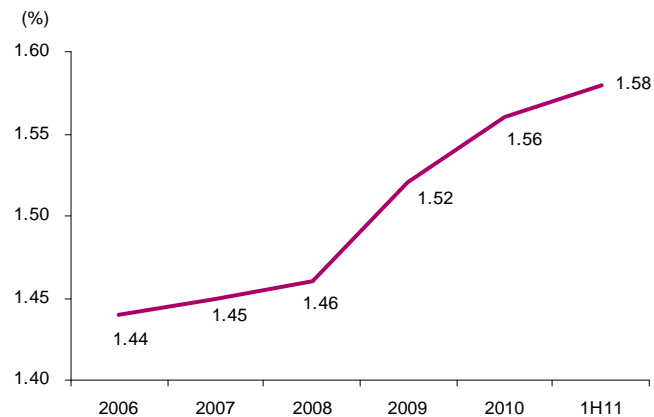
Source: Company data, Samsung Securities estimates

Chart 3. Churn rate trend



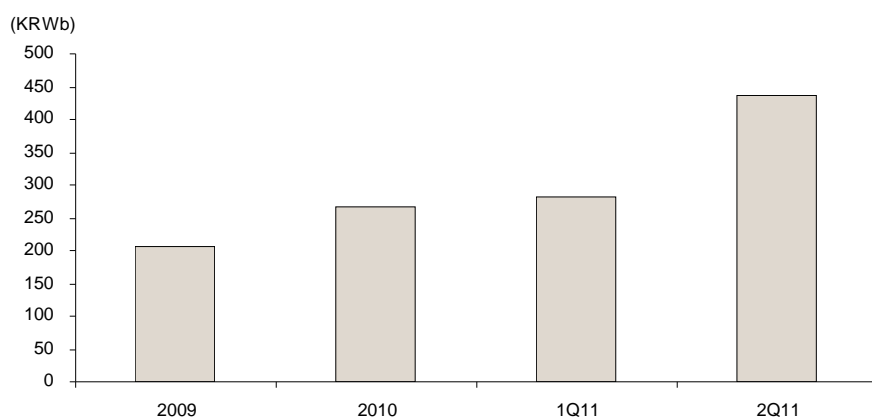
Source: Company data, Samsung Securities

Chart 4. PPC trend



Source: Company data, Samsung Securities

Chart 5. Net debt trend



Source: Company data, Samsung Securities

Income statement

| Year-end Dec 31 (KRWb) | 2009 | 2010 | 2011E | 2012E | 2013E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 1,412 | 1,519 | 1,751 | 1,970 | 2,134 |
| Rental | 1,276 | 1,361 | 1,546 | 1,695 | 1,768 |
| Lump-sum | 79 | 107 | 206 | 269 | 279 |
| Cost of sales | 460 | 494 | 564 | 628 | 758 |
| Gross profit | 952 | 1,025 | 1,187 | 1,342 | 1,377 |
| SG&A expenses | 747 | 796 | 944 | 1,048 | 1,048 |
| Labor costs | 195 | 195 | 201 | 221 | 237 |
| Advertising | 40 | 56 | 61 | 61 | 64 |
| Commission | 229 | 239 | 385 | 433 | 395 |
| Depreciation & amortization | 33 | 35 | 37 | 40 | 42 |
| Other | 250 | 271 | 259 | 293 | 310 |
| Operating profit | 204 | 229 | 244 | 294 | 329 |
| Non-operating income | 27 | 43 | 39 | 46 | 52 |
| Interest income | 3 | 4 | 2 | 2 | 1 |
| Equity method gain | 18 | 30 | 36 | 44 | 51 |
| Other | 6 | 9 | 0 | 0 | 0 |
| Non-operating expenses | 29 | 35 | 33 | 36 | 40 |
| Interest expense | 13 | 18 | 29 | 33 | 37 |
| Equity method loss | 4 | 8 | 2 | 0 | 0 |
| Other | 12 | 9 | 3 | 3 | 3 |
| Recurring profit | 203 | 237 | 249 | 303 | 341 |
| Taxes | 49 | 59 | 60 | 73 | 83 |
| Net profit | 153 | 177 | 189 | 230 | 258 |
| EBITDA | 352 | 383 | 404 | 467 | 517 |
| EPS (KRW)* | 2,023 | 2,296 | 2,446 | 2,979 | 3,352 |

Cash flow

| Year-end Dec 31 (KRWb) | 2009 | 2010 | 2011E | 2012E | 2013E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating cash flow | 312 | 314 | 342 | 377 | 421 |
| Net profit | 153 | 177 | 189 | 230 | 258 |
| Depreciation | 148 | 154 | 161 | 174 | 188 |
| Severance payments | 19 | 17 | 17 | 19 | 18 |
| Associate losses (gains) | (14) | (22) | (35) | (44) | (51) |
| Chg in working capital | (49) | (71) | (46) | (64) | (51) |
| Other | 54 | 59 | 56 | 63 | 58 |
| Investment cash flow | (276) | (296) | (314) | (337) | (356) |
| Capex | (216) | (223) | (277) | (302) | (329) |
| Free cash flow | 96 | 91 | 65 | 76 | 92 |
| Chg in investment assets | 3 | (65) | (0) | 0 | (0) |
| Other | (63) | (8) | (38) | (36) | (27) |
| Financing cash flow | (52) | (20) | (33) | (72) | (67) |
| Chg in short-term debt | (19) | (45) | 2 | 2 | 2 |
| Chg in long-term debt | 0 | 100 | 70 | 40 | 40 |
| Chg in bonds | 0 | 50 | 0 | 0 | 0 |
| Chg in current maturities | 70 | (50) | 110 | 110 | 66 |
| Dividends | (65) | (77) | (80) | (84) | (87) |
| Rights issues | 0 | 0 | 0 | 0 | 0 |
| Other | (39) | 2 | (136) | (140) | (88) |
| Chg in cash | (12) | (7) | (6) | (32) | (2) |
| Cash at beg of year | 76 | 64 | 56 | 50 | 18 |
| Cash at end of year | 64 | 56 | 50 | 18 | 17 |

Note: * Fully diluted, excluding one-off items

Source: Company data, Samsung Securities estimates

Balance sheet

| Year-end Dec 31 (KRWb) | 2009 | 2010 | 2011E | 2012E | 2013E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Current assets | 509 | 579 | 637 | 682 | 736 |
| Cash & equivalents | 64 | 56 | 50 | 18 | 17 |
| Financial goods | 0 | 1 | 1 | 1 | 1 |
| Marketable securities | 0 | 0 | 0 | 0 | 0 |
| Accounts receivable | 195 | 207 | 232 | 261 | 282 |
| Inventories | 55 | 73 | 76 | 90 | 97 |
| Other current assets | 197 | 241 | 278 | 313 | 339 |
| Non-current assets | 761 | 861 | 1,010 | 1,180 | 1,371 |
| Investment assets | 131 | 204 | 239 | 283 | 334 |
| Tangible assets | 418 | 454 | 594 | 748 | 915 |
| Intangible assets | 141 | 134 | 110 | 86 | 60 |
| Other | 71 | 69 | 66 | 64 | 62 |
| Total assets | 1,271 | 1,440 | 1,647 | 1,863 | 2,107 |
| Current liabilities | 542 | 441 | 557 | 595 | 590 |
| Accounts payable | 29 | 38 | 44 | 50 | 54 |
| Short-term borrowings | 120 | 74 | 77 | 79 | 81 |
| Current portion of long-term debt | 120 | 30 | 110 | 110 | 66 |
| Other current liabilities | 273 | 298 | 326 | 356 | 389 |
| Non-current liabilities | 48 | 234 | 216 | 248 | 325 |
| Bonds | 0 | 50 | 50 | 50 | 50 |
| Long-term debt | 30 | 170 | 160 | 200 | 284 |
| Other long-term liabilities | 18 | 14 | 7 | (1) | (9) |
| Total liabilities | 590 | 675 | 773 | 843 | 915 |
| Capital stock | 41 | 41 | 41 | 41 | 41 |
| Capital surplus | 142 | 140 | 140 | 140 | 140 |
| Retained earnings | 530 | 630 | 739 | 885 | 1,056 |
| Capital adjustments | (32) | (43) | (43) | (43) | (43) |
| Total equity | 681 | 765 | 874 | 1,020 | 1,191 |

Financial ratios

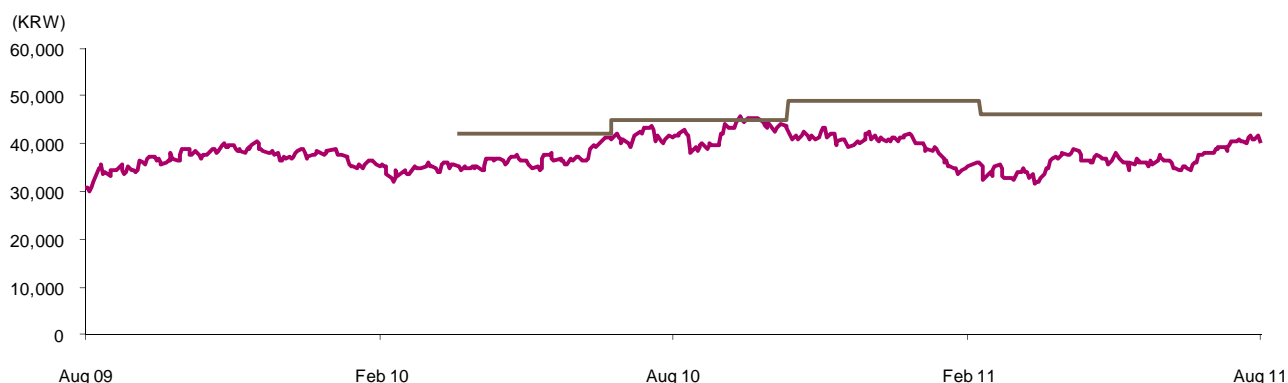
| Year-end Dec 31 | 2009 | 2010 | 2011E | 2012E | 2013E |
|-----------------------------|--------|--------|--------|--------|--------|
| Growth (% y-y) | | | | | |
| Sales | 7.4 | 7.6 | 15.3 | 12.5 | 8.3 |
| Operating profit | 7.4 | 12.0 | 6.4 | 20.6 | 12.0 |
| Pre-tax profit | 9.7 | 16.7 | 5.2 | 21.8 | 12.5 |
| Net profit | 18.8 | 15.5 | 6.6 | 21.8 | 12.5 |
| EBITDA | 6.3 | 8.6 | 5.6 | 15.6 | 10.6 |
| EPS* | 16.7 | 13.4 | 6.6 | 21.8 | 12.5 |
| Margins (%) | | | | | |
| Operating profit | 14.5 | 15.1 | 13.9 | 14.9 | 15.4 |
| Pre-tax profit | 14.4 | 15.6 | 14.2 | 15.4 | 16.0 |
| Net profit | 10.9 | 11.7 | 10.8 | 11.7 | 12.1 |
| EBITDA | 25.0 | 25.2 | 23.1 | 23.7 | 24.2 |
| ROE | 24.7 | 24.6 | 23.0 | 24.3 | 23.4 |
| ROA | 13.1 | 13.1 | 12.2 | 13.1 | 13.0 |
| Ratios | | | | | |
| Net debt/equity (%) | 30.3 | 34.9 | 39.5 | 41.1 | 38.9 |
| Liabilities/equity (%) | 86.7 | 88.2 | 88.5 | 82.7 | 76.8 |
| Interest coverage (x) | 16.3 | 13.0 | 8.4 | 8.8 | 8.9 |
| Receivables turnover (x) | 44.5 | 48.3 | 45.7 | 45.6 | 46.4 |
| Per share data (KRW) | | | | | |
| Sales | 18,639 | 19,697 | 22,701 | 25,542 | 27,675 |
| Book value | 6,996 | 8,184 | 9,896 | 12,107 | 14,667 |
| Dividend | 1,010 | 1,050 | 1,130 | 1,170 | 1,130 |
| EBITDA | 4,651 | 4,961 | 5,241 | 6,060 | 6,703 |

Woongjin Coway

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■ Target price changes in past two years



■ Rating changes in past two years

| Date | 2010/3/22 | 6/25 | 10/14 | 10/21 | 2011/2/9 |
|--------------------|-----------|--------|--------|--------|----------|
| Recommendation | BUY★☆☆ | BUY★☆☆ | BUY★☆☆ | BUY | BUY |
| Target price (KRW) | 42,000 | 45,000 | 49,000 | 49,000 | 46,000 |

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| | |
|----------------|--|
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| BUY | Expected to increase in value by 10% or more within 12 months |
| HOLD | Expected to increase/decrease in value by less than 10% within 12 months |
| SELL | Expected to decrease in value by 10% or more within 12 months |
| SELL★★★ | Expected to decrease in value by 30% or more within 12 months |

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Industry

| | |
|--------------------|---|
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