

Retail

# Woongjin Coway (021240)

# BUY

## More Growth Ahead

### Earnings to improve in 2H

We maintain BUY and our W47,000 TP. Earnings should improve in 2H11 (OPM of 14.1% in 1H vs. 14.3% in 2H) on solid growth for the environmental appliance division and a steep decline in initiation costs for the cosmetics division. Rental and membership sales should increase 9.5% yoy (vs. three-year average growth of 4.4%), underpinned by a solid rise in the number of net accounts (estimated at over 400K in 2011).

### 2Q review: sales up 19% but OP down 13%

The company reported 2Q11 sales of W435.9bn (+19.3% yoy; K-IFRS). OP came in at W61.8bn, declining 13% yoy because of initiation costs incurred by the cosmetics division and a change in accounting method to IFRS, which shortened the recognition period for commissions. Solid sales in flagship environmental appliances increased the number of net accounts by 130K (+250K in 1H). The company should exceed its 2011 target of 350K. The churn rate fell to 0.98%. Lump-sum sales climbed 57% yoy and surpassed 10% of sales. The domestic cosmetics division reported sales of W17.9bn (+3% qoq) and an operating loss of W5.1bn stemming from initiation costs and marketing costs.

The cosmetics business in China posted RMB 65.7mn in sales (+7% yoy) but only RMB 16.35mn in OP (-30% yoy). OPM dropped 13%p to 24.9% because of agency restructuring and marketing costs but remained at the company's 2011 target OPM of 25%.

### 2H outlook

Sales for the environmental appliance business should increase 10%, marking the highest growth in the past six years. The rise should be supported by sustained growth in the number of accounts, a stabilizing churn rate and solid lump-sum sales.

We also see growth in sales for the domestic cosmetics division given the launch of new brands FROMN and ALL-VIT. The division should exceed its annual target by W60bn. Marketing costs coming from the launch of new brands should translate into an operating loss of slightly over W14bn in 2011. The division targets BEP in 2012.

## Earnings review

**TP (12M): W47,000**

CP (August 3): W39,200

August 4, 2011

Analyst  
Sunjae Song

## Financial Data

		2009	2010	2011F	2012F	2013F
Sales	Wbn	1,411.9	1,519.1	1,726.9	1,886.5	2,045.5
OP	Wbn	204.3	228.8	245.9	279.1	311.0
PTP	Wbn	202.7	236.5	226.4	260.8	295.9
NP	Wbn	153.3	177.0	172.1	198.2	224.9
EPS	W	2,023	2,296	2,231	2,569	2,916
Chg	%	16.7	13.4	7.2	15.2	13.5
P/E	X	19.0	17.6	17.6	15.3	13.4
P/B	X	4.1	3.9	3.5	3.1	2.8
EV/EBITDA	X	8.8	8.3	8.3	7.4	6.5
ROE	%	24.0	24.5	21.1	21.6	21.7
BPS	W	9,298	10,358	11,156	12,606	14,242
Net DER	%	29.4	34.5	33.2	24.7	15.6

Source: Hana Daetoo Securities

**Table 1. 2Q11 review**

(Wbn, %)

	2Q11	2Q10	YoY	1Q11	QoQ
Sales	435.9	365.3	19.3	399.8	9.0
Lump-sum	38.8	24.7	57.1	31.8	22.0
Rental	299.7	272.4	10.0	288.0	4.1
Membership	39.9	36.6	9.0	39.1	2.0
Cosmetics	17.9	0.0	n/a	17.4	2.9
Others	39.6	31.6	25.3	23.5	68.5
OP	61.8	71.3	-13.3	56.5	9.4
PTP	55.1	76.0	-27.5	50.4	9.2
NP	42.1	59.2	-28.9	38.8	8.5
Margin					
OPM	14.2	19.5	-5.3P	14.1	0.1P
PTPM	12.6	20.8	-8.2P	12.6	0.0P
NPM	9.7	16.2	-6.5P	9.7	0.0P

Note: K-IFRS  
Source: company data

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#### Stock ratings for the next twelve months

Rating	Definition
BUY	Target Price implies at least 15% upside potential
Neutral	Target Price implies less than 15% upside or downside potential
Reduce	Target Price implies at least 15% downside potential

#### Sector ratings for the next twelve months

Rating	Definition
Overweight	Sector index implies at least 15% upside potential
Neutral	Sector index implies less than 15% upside or downside potential
Underweight	Sector index implies at least 15% downside potential

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